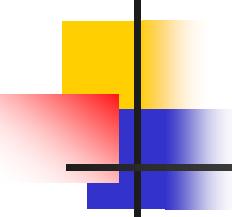


The State of the Economy and Prospects for Tax Revenue in Tennessee

presented to
Tennessee State Funding Board
Nashville, Tennessee
December 3, 2008

by
Albert E. DePrince, Jr.
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The State of the Economy and Prospects for Tax Revenue in Tennessee

Contents

The U.S. Crisis in Perspective

- Liquidity and Risk
- Housing Sector and
 - Foreclosures
 - Types of Foreclosures
 - Commercial Bank Delinquencies
 - Debt Service Burden
- Business Sector and Commercial Bank Delinquencies
- The Equity Market

The U.S. in a Global Environment

- Exports and the Net Export Deficit
- U.S. Capital Inflows and National Saving
- The Dollar versus Industrialized Currencies

Energy and the U.S. Economy

- Natural Gas Price, Oil, and the Dollar

The Corporate Sector and the Business Cycle

- The Investment Spending Picture
- Industrial Output and Business Inventories

Household Investment and the Business Cycle

- Light Vehicle Sales and Housing

Labor Markets and the Business Cycle

- Unemployment and Labor Force Participation
- Initial Unemployment Claims and Duration

Forward Looking Indexes and the Business Cycle

- Leading Indicators and Consumer Confidence

The U.S. Outlook-Setting the State

- Real Interest Rates the Yield curve
- The Blue Chip Financial Outlook

Baseline Economic Outlook

- General Overview
- Cyclical Characteristics
- Household Sector
- Corporate and International Sectors

Interest Rates

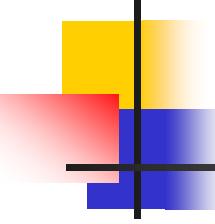
- Market Outlook
- MTSU Interest Rates

The Tennessee Economy

- Personal Income
- Labor Markets
- Housing
- Spending

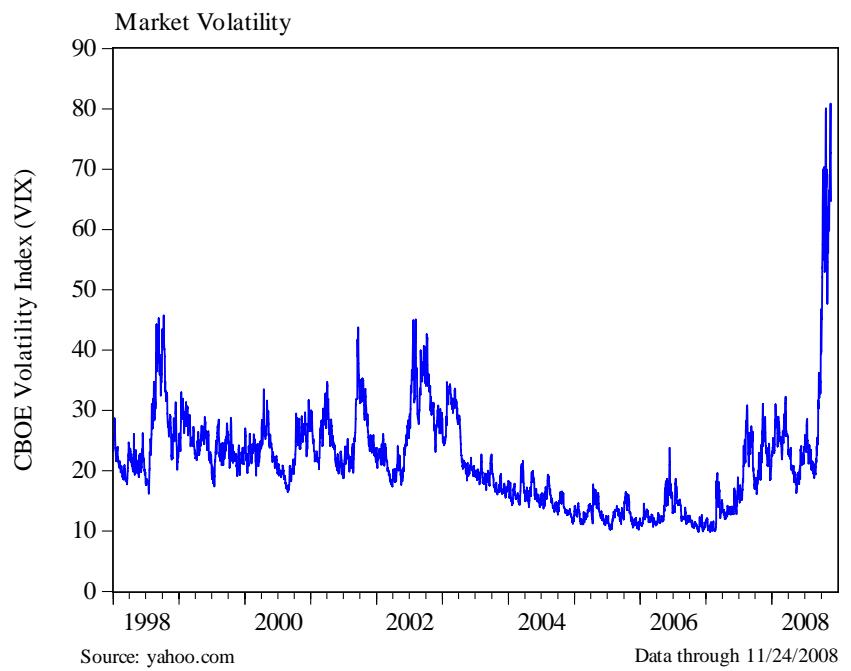
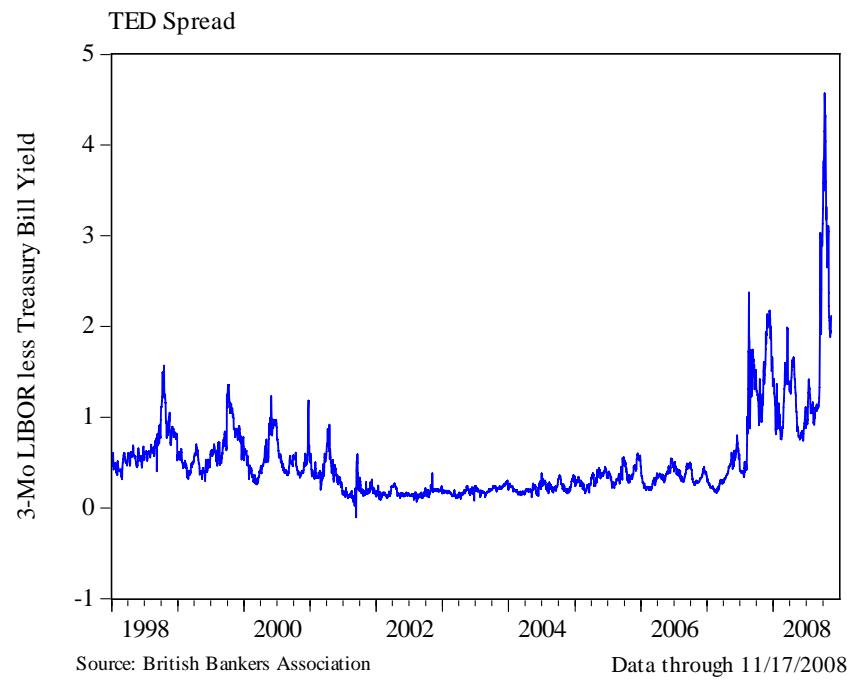
Outlook for Tennessee

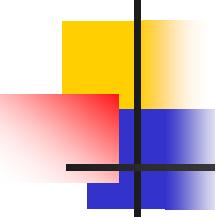
- Tennessee Economic Outlook
- Outlook for State Revenue
- A Consistency Check
- Contingency View



The U.S. Crisis in Perspective

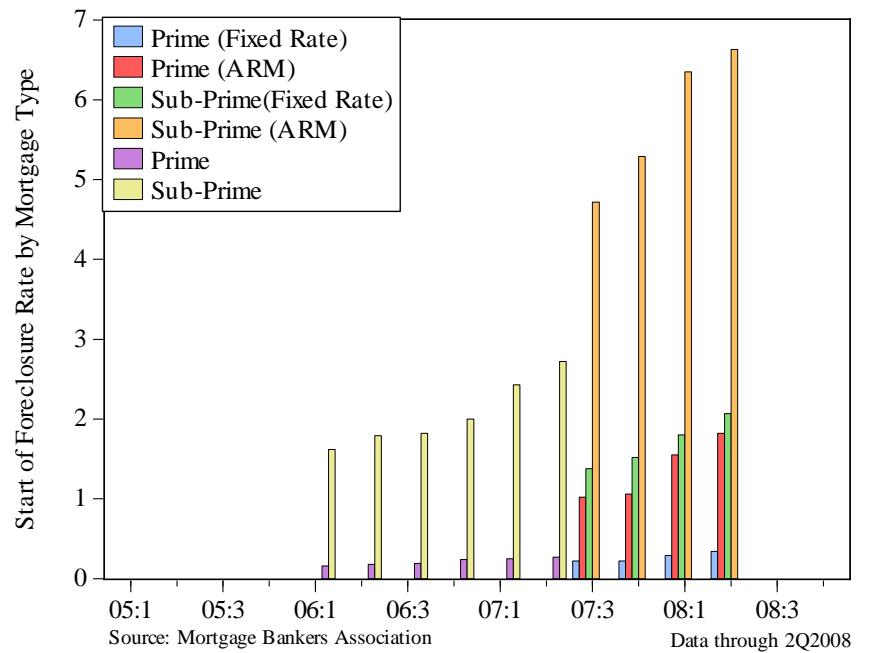
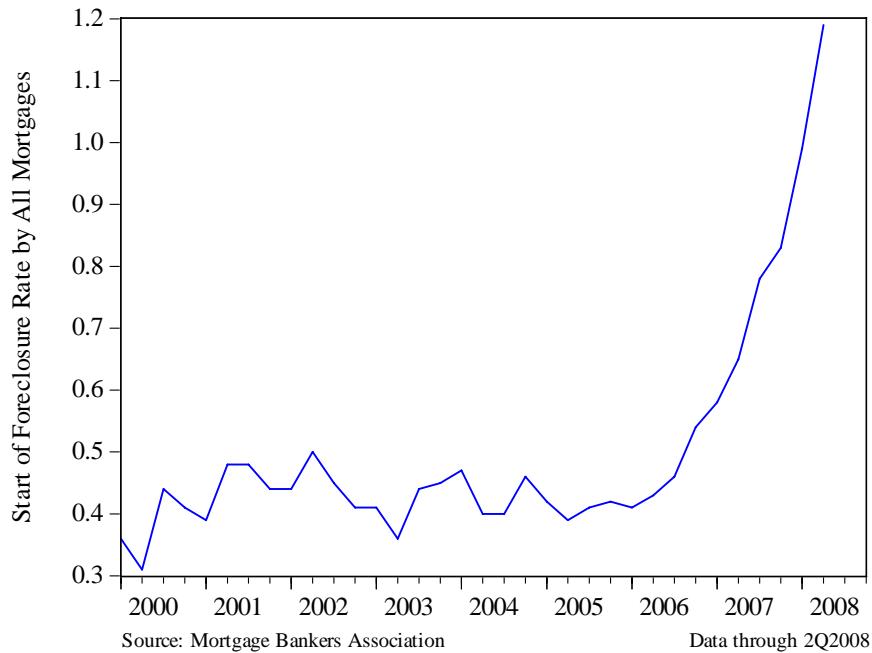
Liquidity and Risk

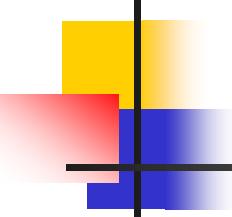




The U.S. Crisis in Perspective

Housing Sector—Foreclosures





The U.S. Crisis in Perspective

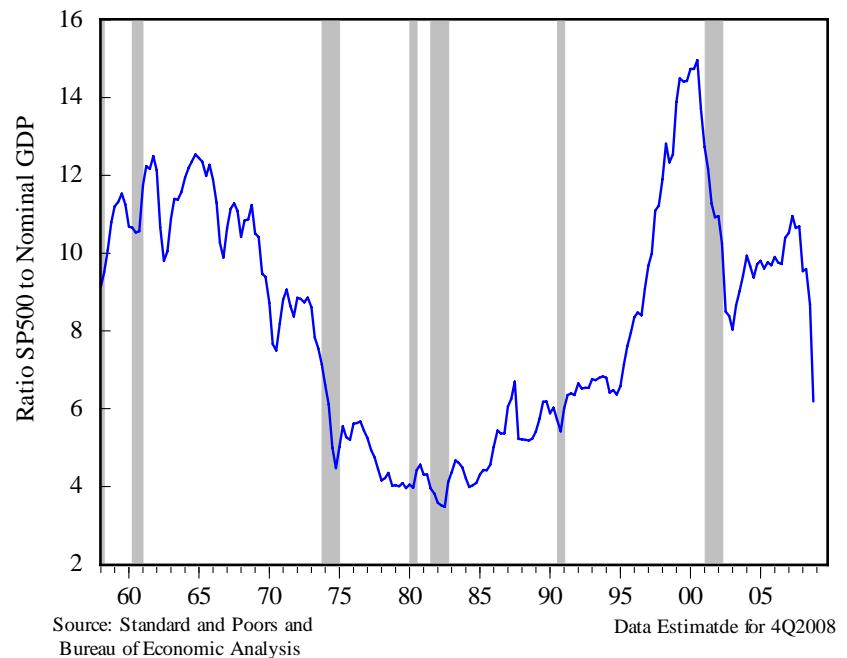
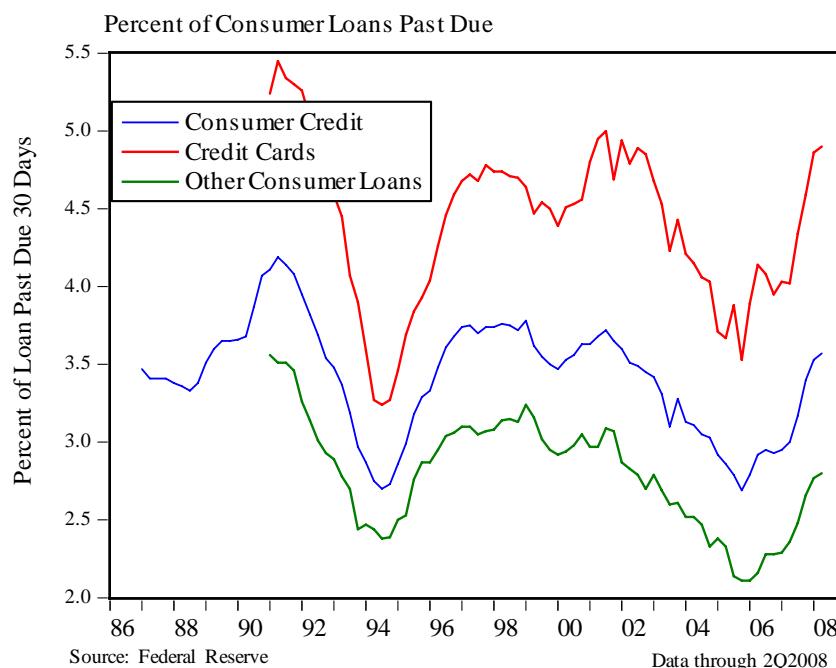
Housing Sector—Mortgage Types and Foreclosures

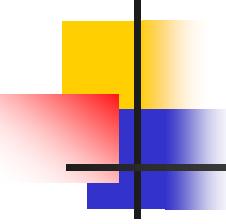
Distribution of Foreclosures Started *as of 3/31/08*

Mortgage Type	Percent of Outstanding Loans	Percent of Foreclosures Started
Prime - Fixed Rate	65.00%	19%
Prime - ARM	15%	23%
Sub-Prime - Fixed Rate	6%	11%
Sub-Prime - ARM	6%	39%

The U.S Crisis in Perspective

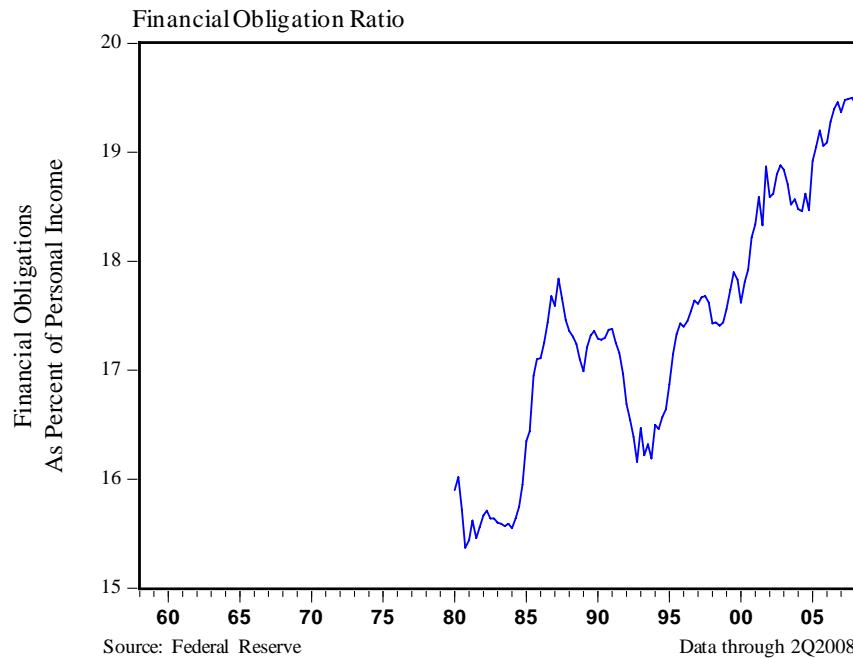
Household Sector – Commercial Bank Delinquency Rates





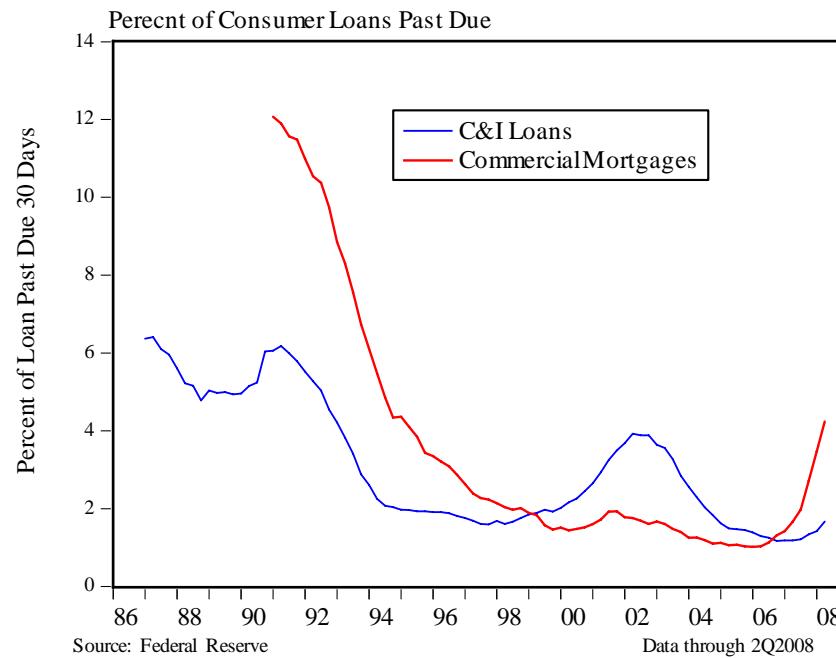
The U.S. Crisis in Perspective

Household Sector—Debt Service Burden



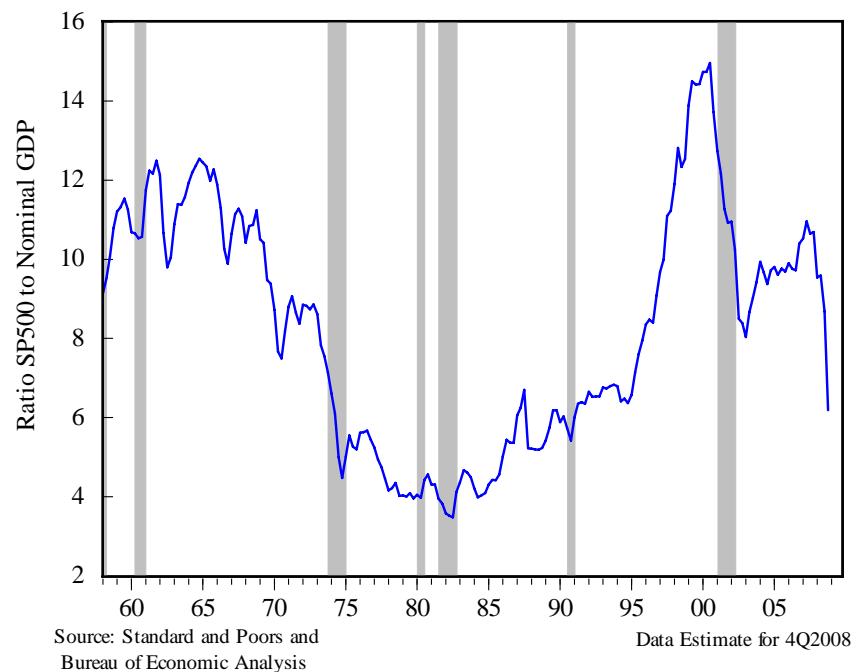
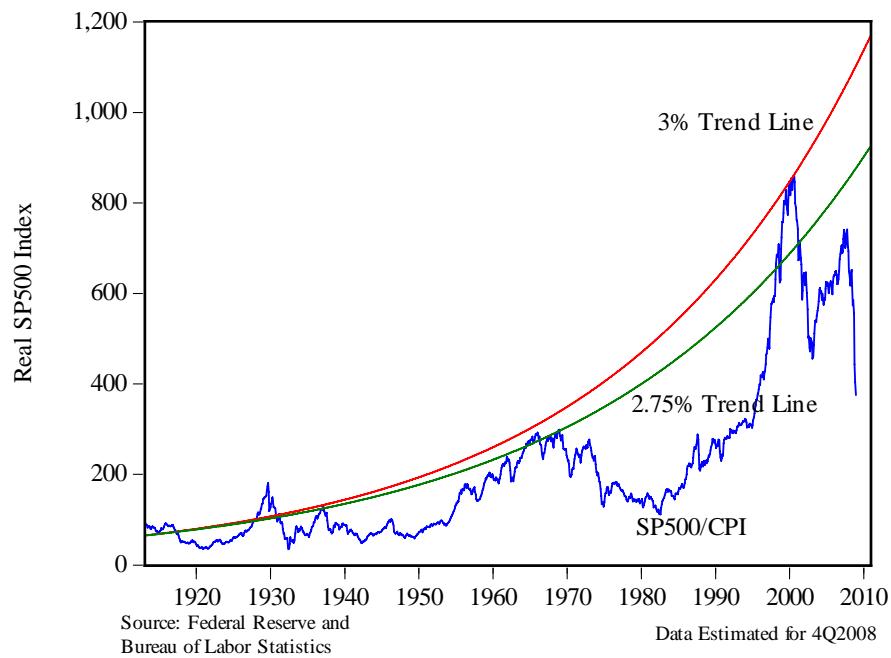
The U.S. Crisis in Perspective

Business Sector—Commercial Bank Delinquency Rates



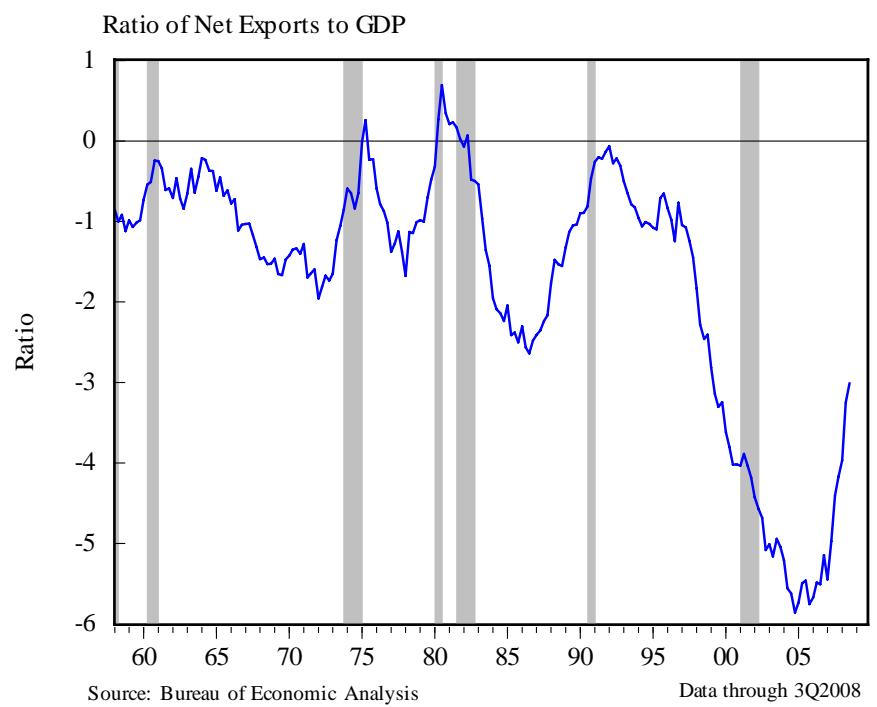
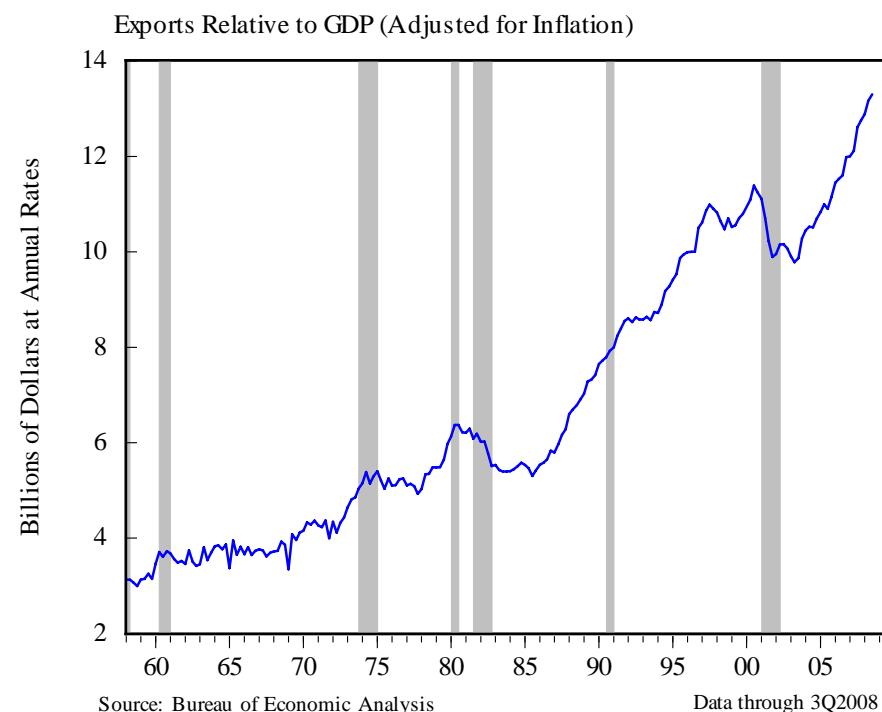
The U.S. Crisis in Perspective

The Equity Market



The U.S. in a Global Environment

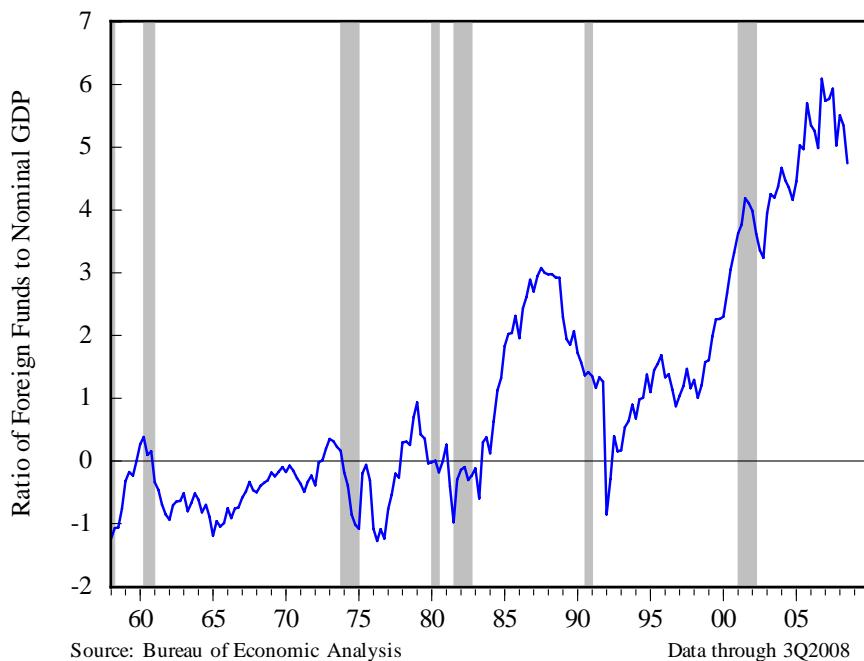
Exports and the Net Export Deficit



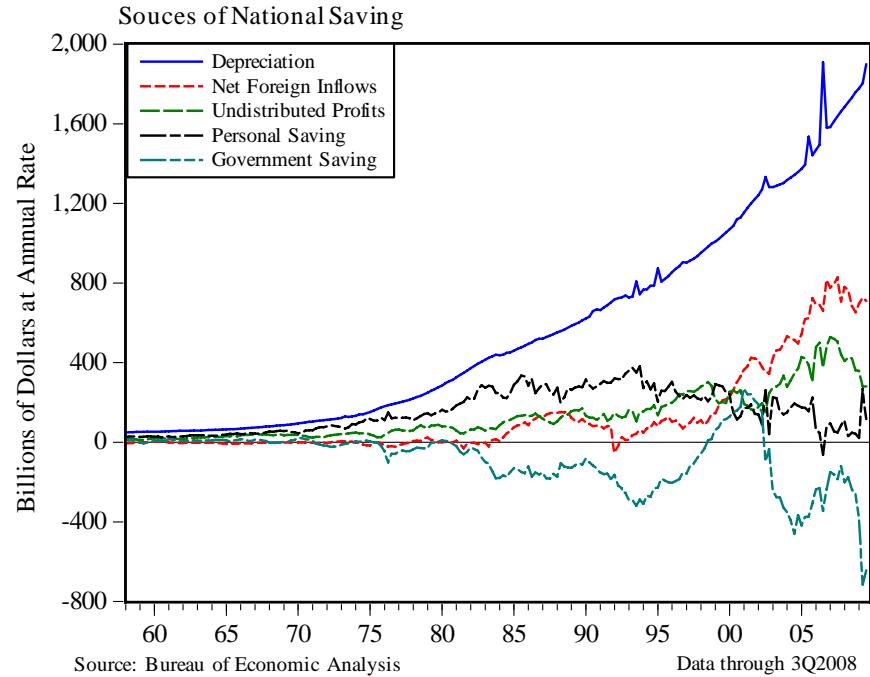
The U.S. in a Global Environment

U.S. Capital Inflows and National Savings

Importance of Foreign Funds

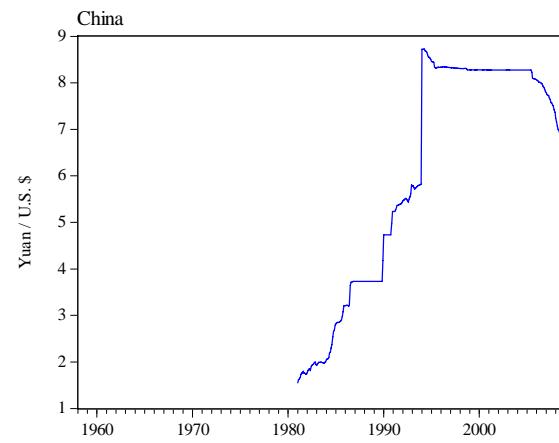
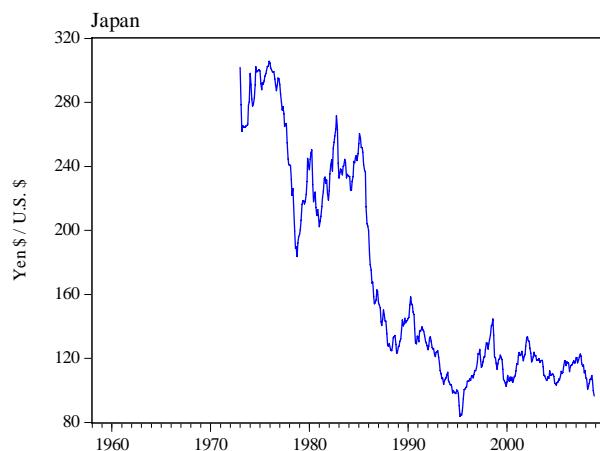
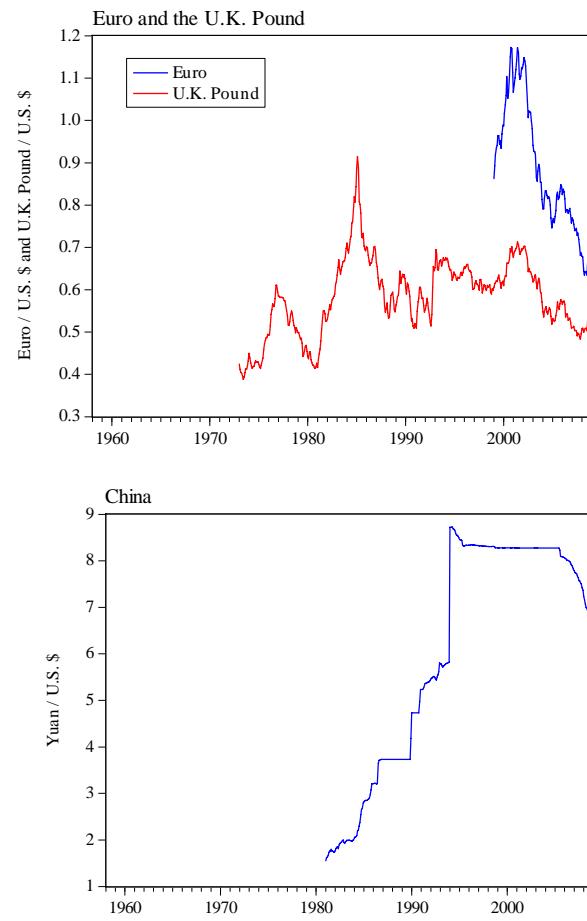
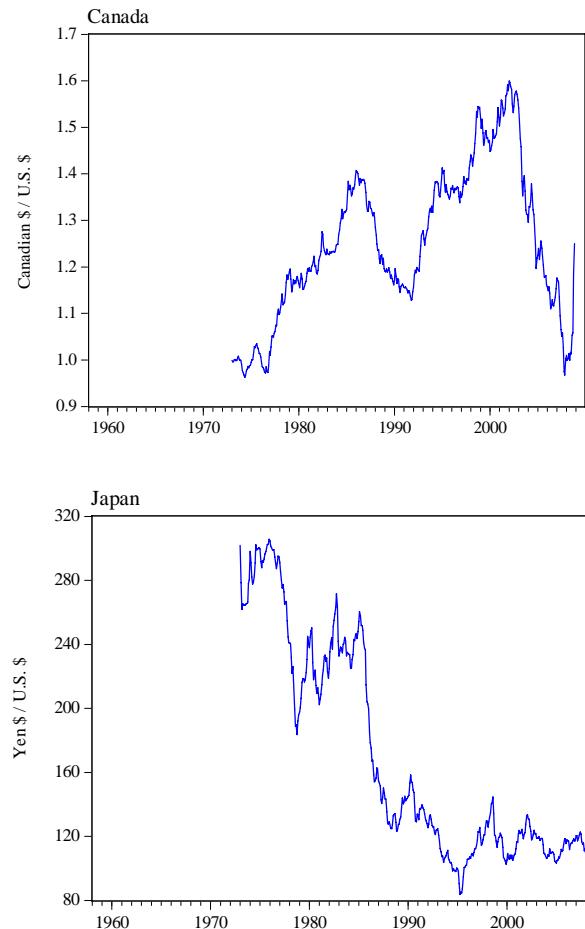


Souces of National Saving



The U.S. in a Global Environment

\$ versus Industrialized Countries



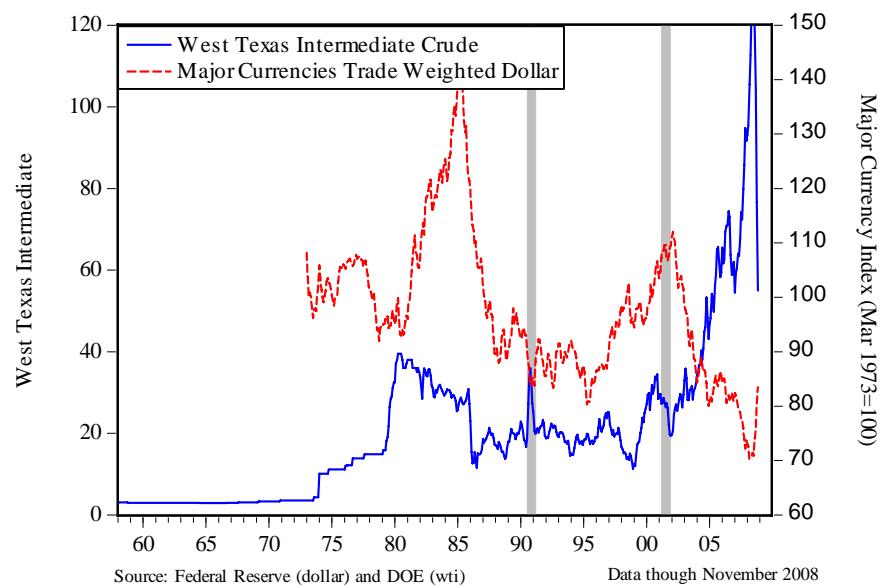
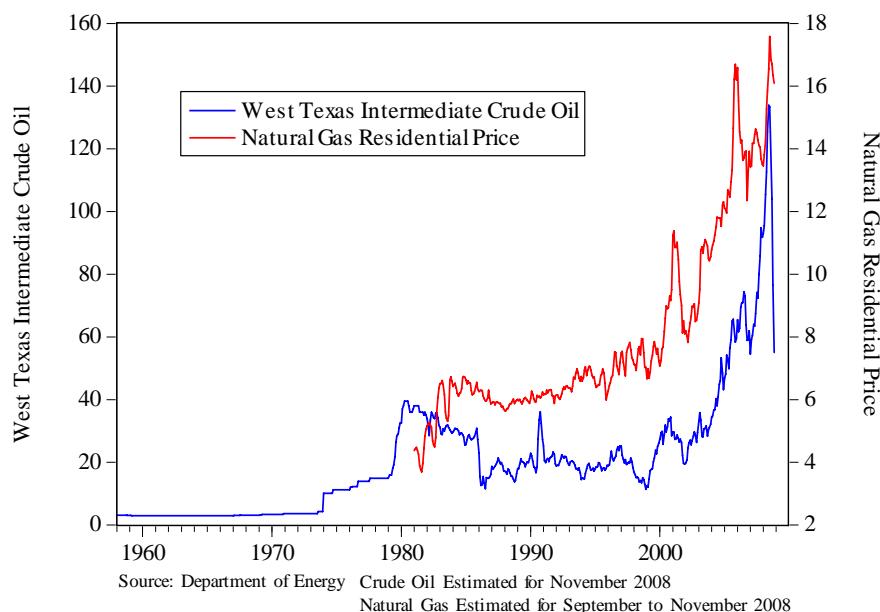
Data Estimated for November 2008

Data expressed as foreign currency per dollar

Source: Federal Reserve

Energy and the U.S. Economy

Natural Gas Prices, Oil Prices, and the Dollar



The Corporate Sector and the Business Cycle

The Investment Spending Picture

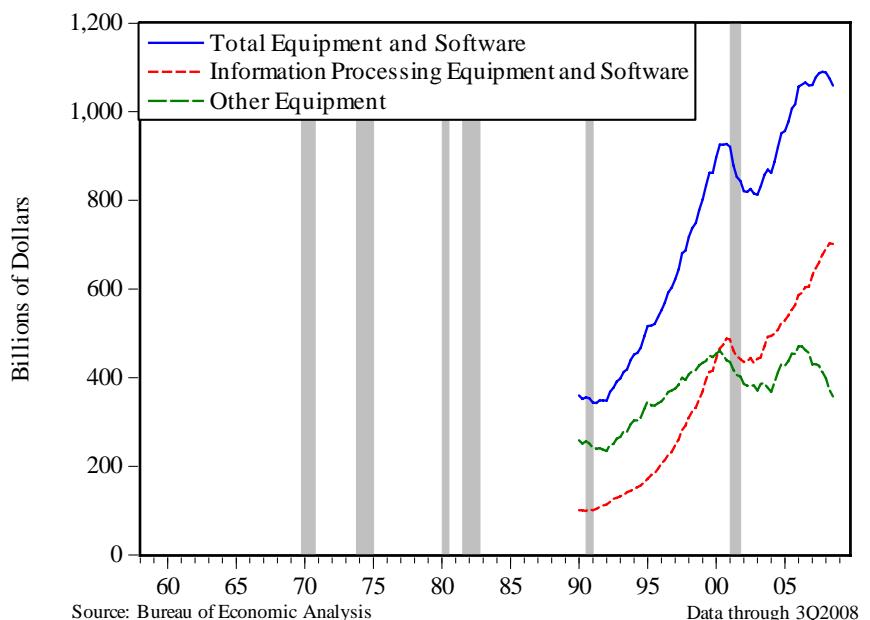
Business equipment and software

- So far this year 65 percent of total is devoted to information-processing equipment and software
- Remainder is spread among industrial, transportation, and other equipment

Spending on other equipment is well past its peak for this cycle

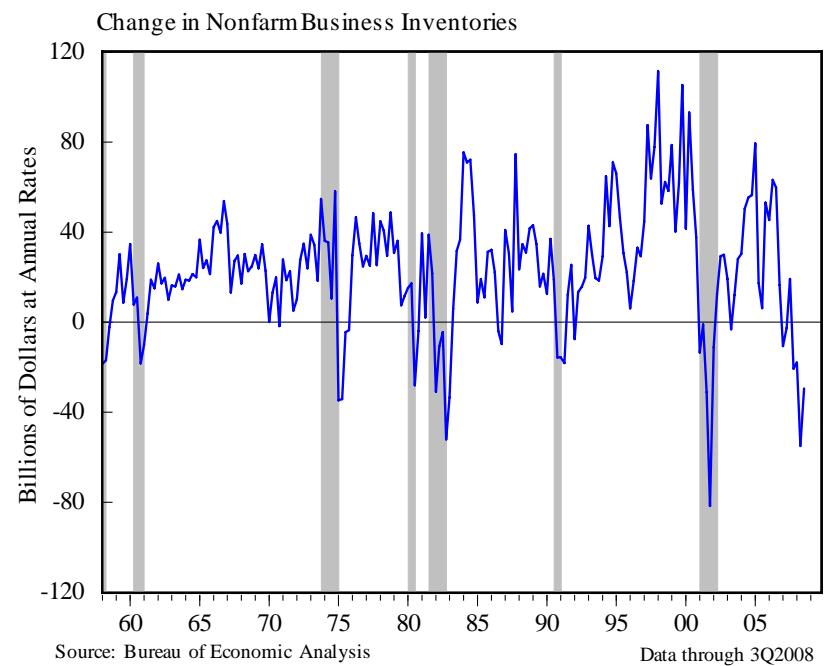
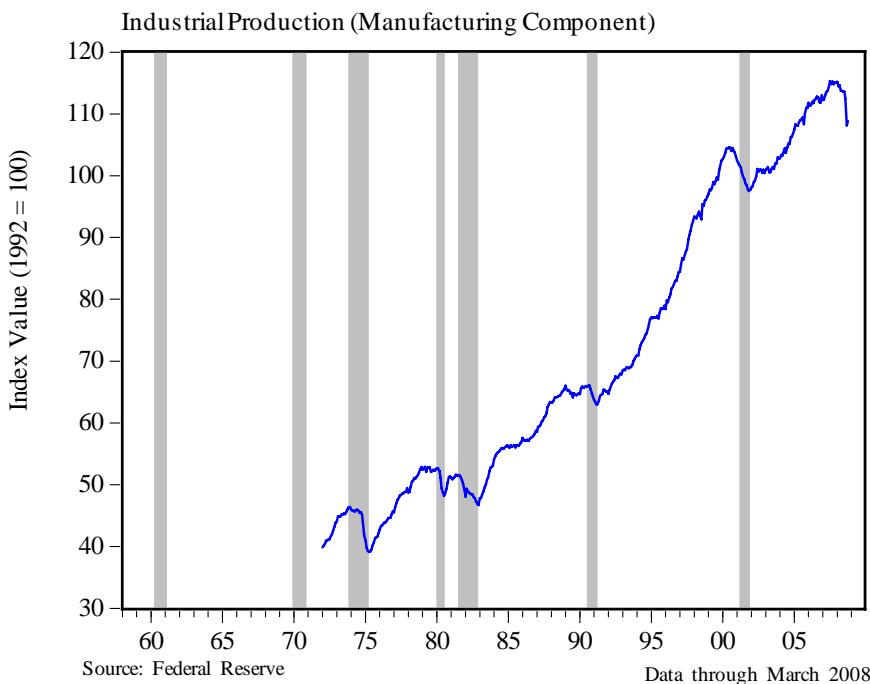
Spending on information processing equipment is vulnerable

- Declines in spending on information processing equipment and software appear inevitable in the quarters ahead



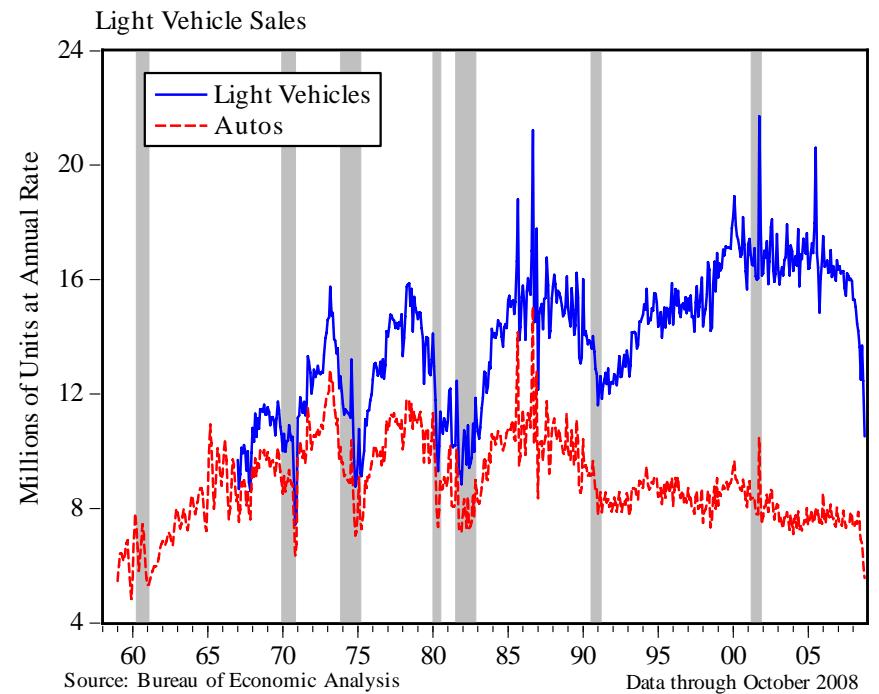
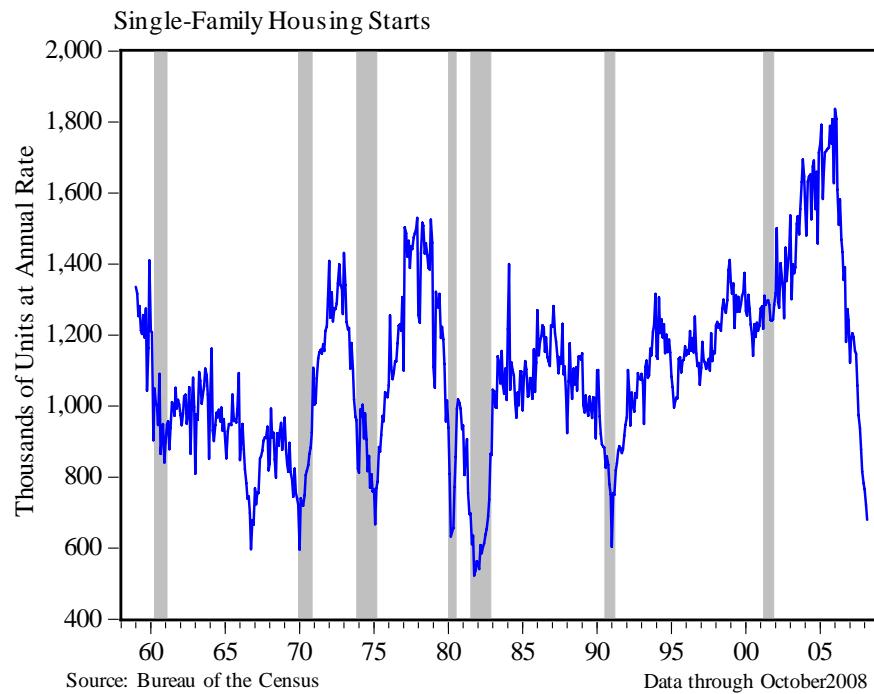
The Corporate Sector and the Business Cycle

Industrial Output and Changes in Inventories



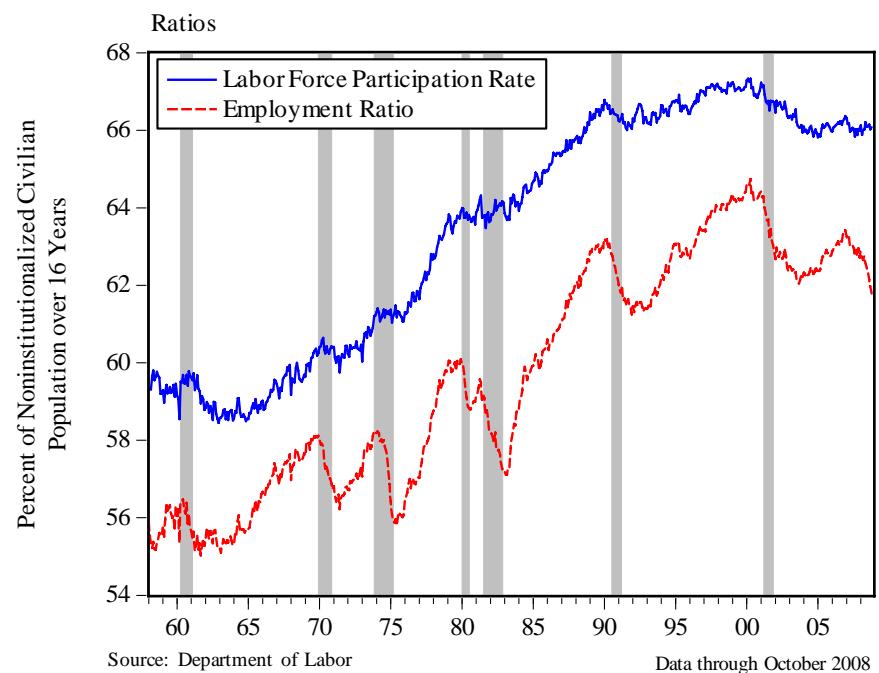
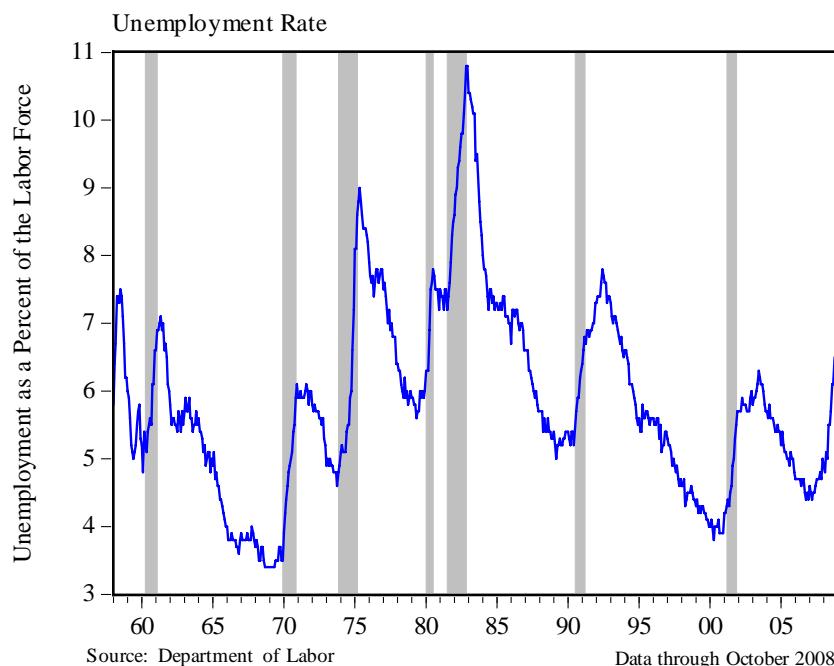
Household Investment and the Business Cycle

Light Vehicle Sales and Housing



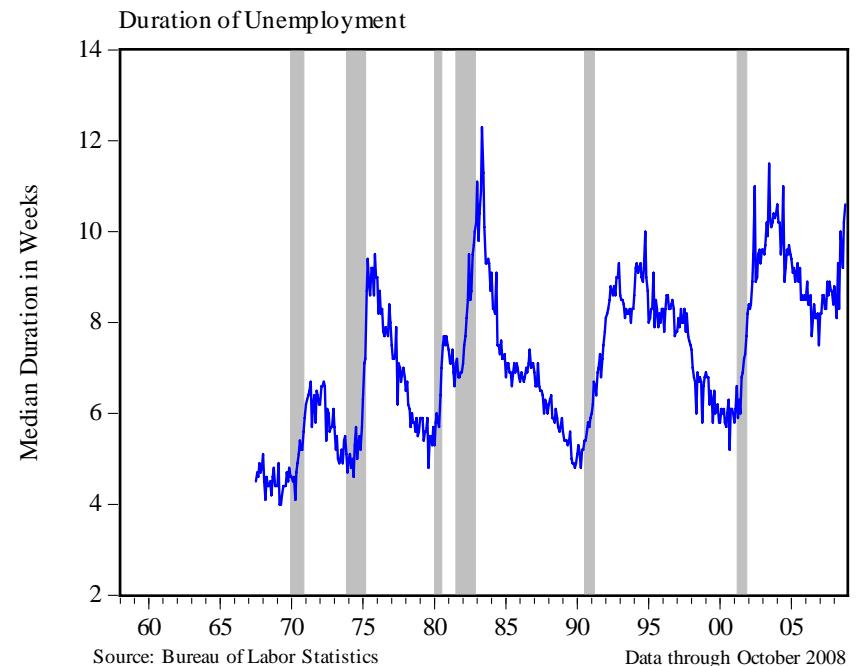
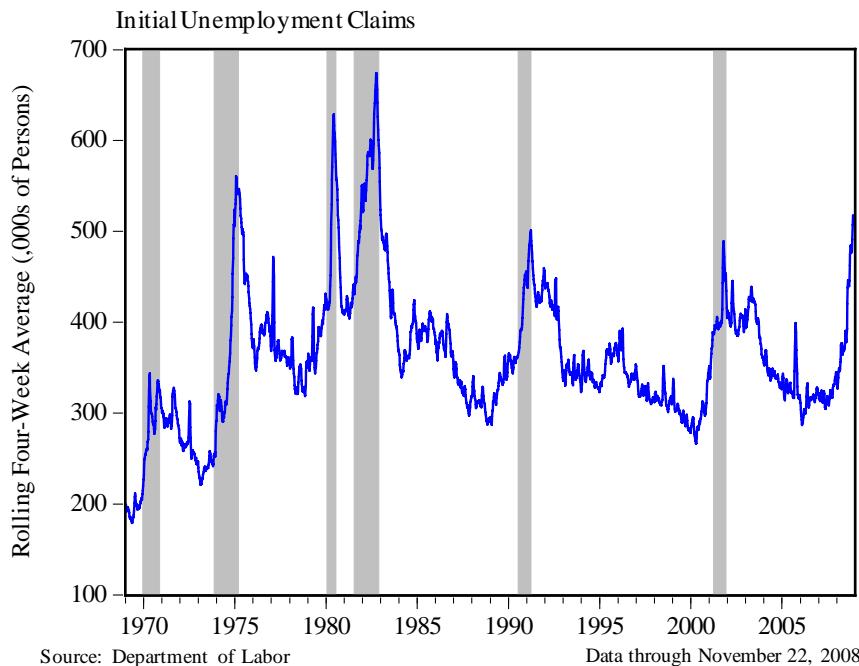
Labor Markets and the Business Cycle

Unemployment Rate, Labor Force Participation Rate and Employment Ratio



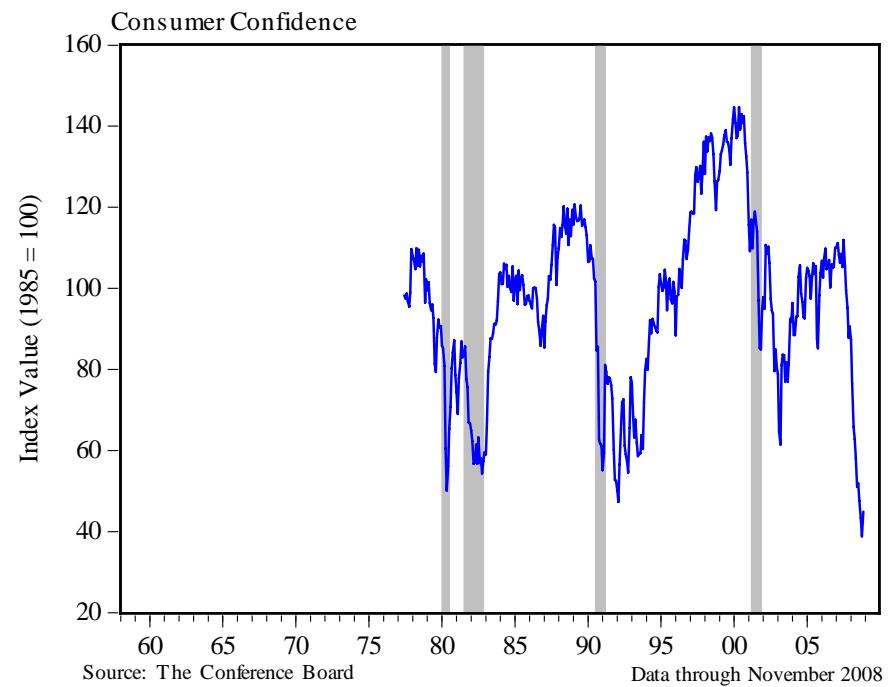
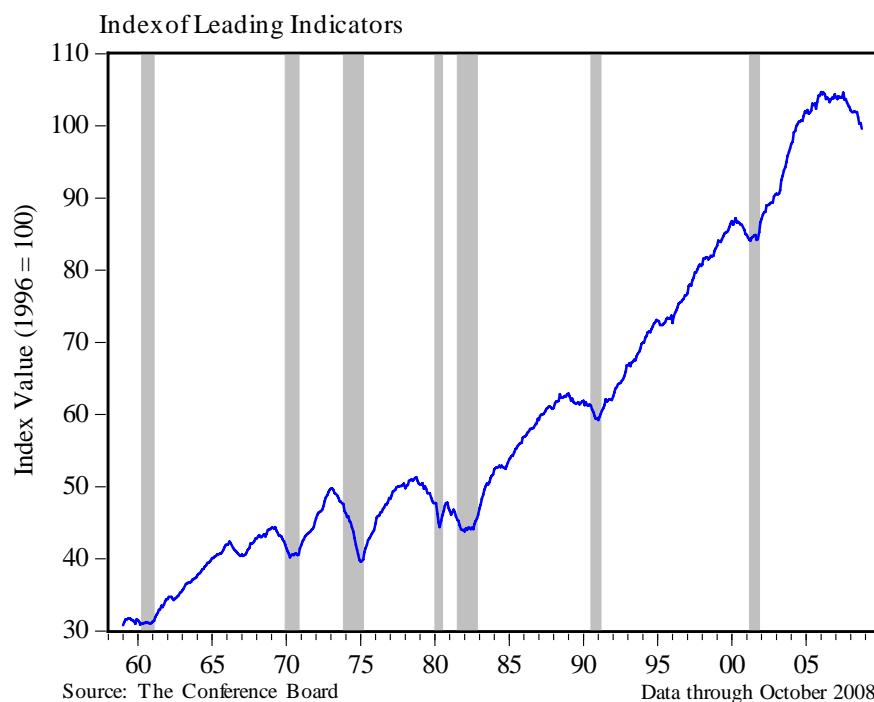
Labor Markets and the Business Cycle

Initial Unemployment Claims and the Duration of Unemployment



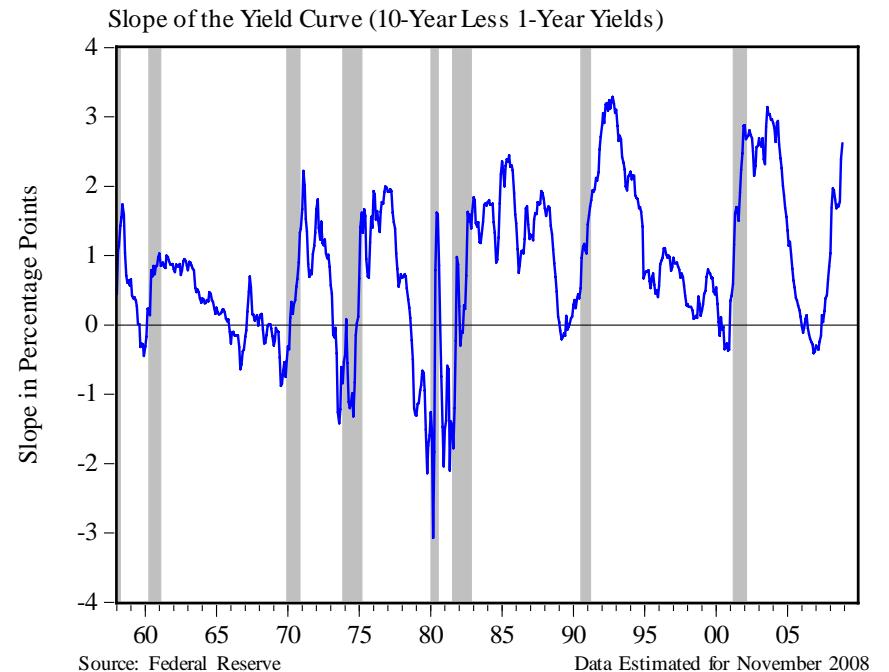
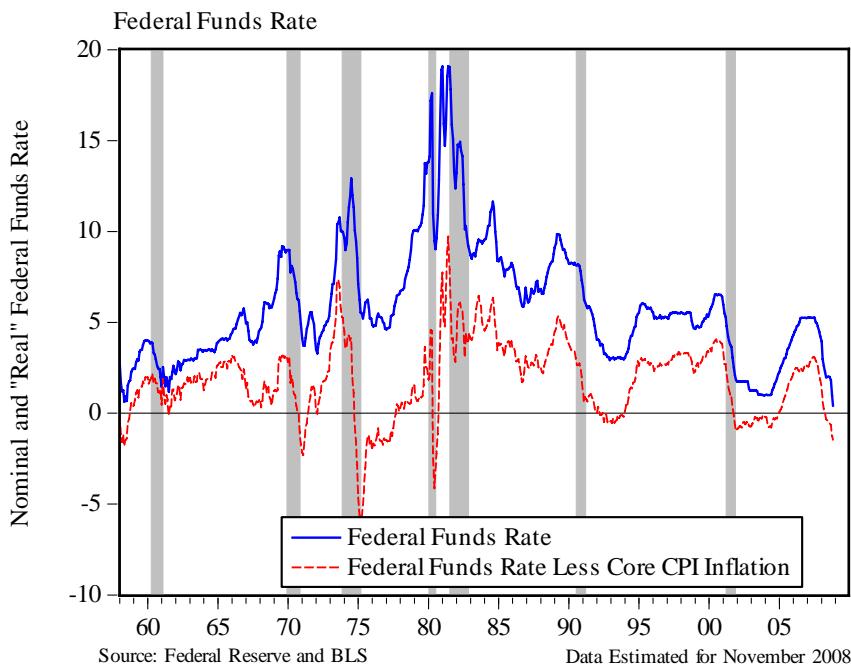
Forward Looking Indexes and the Business Cycle

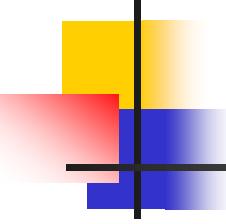
Leading Indicators and Consumer Confidence



The U.S. Outlook – Setting the Stage

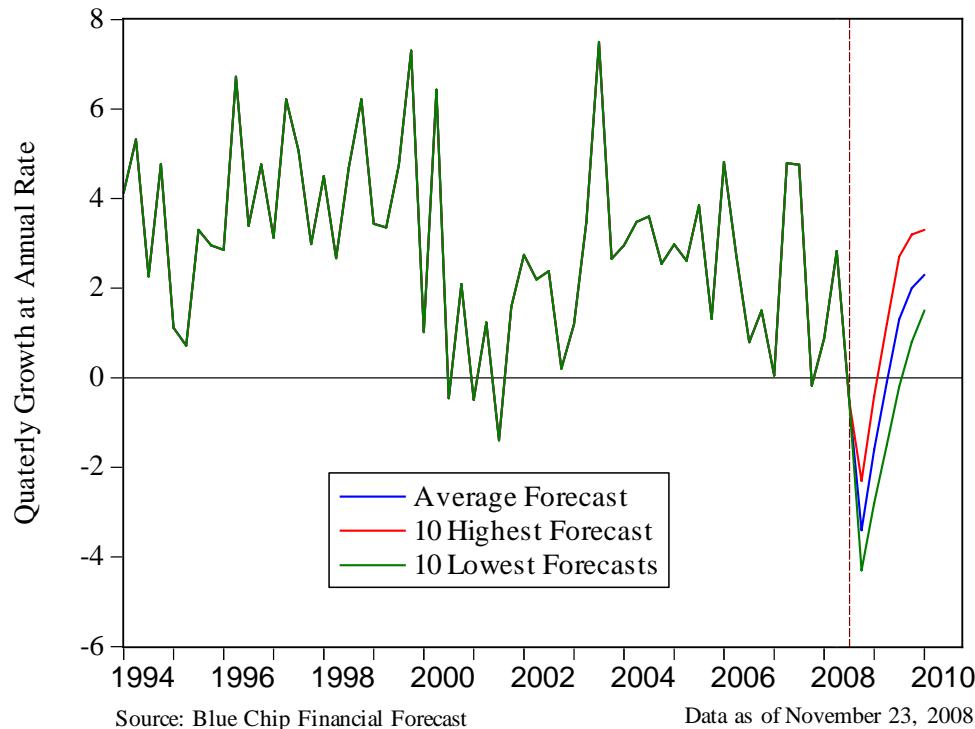
The Interest Rate Regime





The U.S. Outlook – Setting the Stage

Blue Chip Short-Term Economic Forecasts



Baseline Economic Outlook

General Overview

	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	Year-over-Year Growth 2008 2009 2010
1 Gross Domestic Product	14150.8	14294.5	14420.5	14305.9	14307.5	14368.5	14498.7	14655.1	14828.8	15003.5	15203.7	15403.9	3.5 1.2 4.5
2 Change *	5.3	5.3	5.3	-3.1	0.0	1.7	3.7	4.4	4.8	4.8	5.4	5.4	
3 Gross Dom. Product (96\$)	11646.0	11727.4	11712.3	11600.2	11544.1	11536.5	11583.1	11650.4	11730.0	11809.3	11907.8	12004.2	1.3 -0.8 2.5
4 Change *	0.9	2.8	-0.5	-3.8	-1.9	-0.3	1.6	2.3	2.8	2.7	3.4	3.3	
5 Personal Consump. Exp. (96\$)	8316.1	8341.3	8262.1	8155.7	8107.9	8100.5	8113.2	8156.4	8229.8	8296.5	8372.6	8451.2	0.2 -1.8 2.7
6 Change *	0.9	1.2	-3.7	-5.1	-2.3	-0.4	0.6	2.1	3.6	3.3	3.7	3.8	
7 Equipment and Software (96\$)	1088.6	1074.7	1059.2	1038.9	1023.1	1009.9	1005.5	1005.9	1015.2	1025.5	1041.4	1058.9	-1.3 -5.1 2.4
8 Change *	-0.5	-5.0	-5.6	-7.4	-6.0	-5.0	-1.7	0.2	3.8	4.1	6.3	6.9	
9 Nonresid. Construction (96\$)	326.4	340.5	346.0	345.6	341.6	336.3	332.0	331.9	329.0	329.3	329.4	331.7	11.5 -1.2 -1.7
10 Change *	8.7	18.4	6.6	-0.5	-4.6	-6.0	-5.0	-0.1	-3.5	0.4	0.0	2.8	
11 Resid. Construction (96\$)	383.0	369.6	352.1	336.2	320.6	306.1	293.4	283.2	279.9	280.9	287.6	289.8	-20.6 -16.5 -5.4
12 Change *	-25.0	-13.3	-17.6	-16.9	-17.3	-16.8	-15.6	-13.2	-4.5	1.4	9.9	3.1	
13 Federal Defense (96\$)	518.9	528.1	550.5	546.7	546.7	545.2	545.4	545.5	545.9	546.2	546.5	546.8	6.8 1.8 0.1
14 Change *	7.2	7.3	18.1	-2.7	0.0	-1.1	0.1	0.1	0.3	0.2	0.2	0.2	
15 Fed. Nondefense (96\$)	253.2	256.3	259.1	260.6	262.2	264.1	266.0	267.9	269.9	271.9	274.0	276.0	2.7 3.0 3.0
16 Change *	2.7	5.0	4.4	2.3	2.6	2.8	3.0	3.0	3.0	3.0	3.0	3.0	
17 State + Local (96\$)	1266.7	1274.4	1276.9	1279.4	1281.8	1284.3	1286.9	1291.0	1296.2	1302.3	1309.8	1317.9	
18 Change *	-0.3	2.5	0.8	0.8	0.7	0.8	0.8	1.3	1.6	1.9	2.3	2.5	1.2 0.9 1.6
19 Net Exports ('96\$)	-462.0	-381.3	-352.3	-323.6	-292.6	-273.3	-253.0	-250.4	-254.9	-262.4	-272.5	-287.3	
20 Chg. in Bus. Invent. (96\$)	-10.2	-50.6	-29.1	-39.3	-47.1	-36.6	-6.2	18.9	19.0	19.1	19.1	19.2	
21 Nonfarm Inventories	-17.9	-55.1	-29.5	-38.6	-46.8	-36.8	-6.6	18.6	18.7	18.8	18.9	19.0	
22 Farm Inventories	7.7	4.5	0.4	-0.8	-0.3	0.2	0.4	0.3	0.2	0.2	0.2	0.2	
23 GNP Deflator ('96=100) *	2.6	1.3	4.1	0.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2 2.0 2.0
24 CPI (1982-84=100) *	4.3	5.0	6.7	-1.5	1.9	2.0	2.2	2.2	2.3	2.4	2.4	2.4	4.3 2.1 2.3
25 PPI (1982=100) *	9.2	10.6	8.6	-12.0	1.6	2.0	2.1	2.0	2.1	2.2	2.1	2.1	6.9 0.4 2.1

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

November 26, 2008

Baseline Economic Outlook

Cyclical Characteristics

	2008				2009				2010				Year-over-Year Growth		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
1 Domestic Final Sales ('96\$)	12118.2	12159.3	12093.7	11963.1	11883.9	11846.5	11842.4	11881.9	11966.0	12052.7	12161.2	12272.3	-1.2	-0.7	3.3
2 Change *	0.2	1.4	-2.1	-4.3	-2.6	-1.3	-0.1	1.3	2.9	2.9	3.7	3.7			
3 Cyclical Domestic Demand ('96\$)	3035.0	3013.1	2936.1	2813.7	2762.6	2731.5	2713.3	2724.0	2767.9	2808.1	2862.2	2912.7	-4.2	-7.3	3.8
4 Change *	-4.7	-2.9	-9.8	-15.7	-7.1	-4.4	-2.6	1.6	6.6	5.9	7.9	7.3			
5 Cyclical Consumer Demand ('96\$)	1237.0	1228.3	1178.8	1093.0	1077.4	1079.1	1082.4	1103.0	1143.8	1172.4	1203.8	1232.4	-4.7	-8.3	9.5
6 Change *	-4.3	-2.8	-15.2	-26.1	-5.6	0.6	1.2	7.8	15.6	10.4	11.2	9.8			
7 Light Vehicles and Parts ('96\$)	424.7	400.6	370.9	302.1	300.2	307.6	313.2	330.5	366.2	390.7	416.8	439.8	-14.9	-16.5	28.9
8 Change *	-11.4	-20.8	-26.5	-56.0	-2.6	10.3	7.4	24.1	50.7	29.5	29.5	24.0			
9 Other Durables ('96\$)	812.3	827.7	807.9	790.8	777.2	771.5	769.2	772.5	777.6	781.7	787.0	792.6	1.0	-4.6	1.6
10 Change *	-0.2	7.8	-9.2	-8.2	-6.7	-2.9	-1.2	1.7	2.7	2.1	2.7	2.8			
11 Fixed Investment ('96\$)	1762.4	1754.9	1730.0	1720.7	1685.2	1652.4	1630.9	1621.0	1624.2	1635.7	1658.4	1680.4	-3.7	-5.4	0.1
12 Change *	4.9	4.9	4.9	-2.1	-8.0	-7.6	-5.1	-2.4	0.8	2.9	5.7	5.4			
13 Resid. Construction ('96\$)	383.0	369.6	352.1	336.2	320.6	306.1	293.4	283.2	279.9	280.9	287.6	289.8	-20.6	-16.5	-5.4
14 Change *	-25.0	-13.3	-17.6	-16.9	-17.3	-16.8	-15.6	-13.2	-4.5	1.4	9.9	3.1			
15 Nonresid. Construction ('96\$)	326.4	340.5	346.0	345.6	341.6	336.3	332.0	331.9	329.0	329.3	329.4	331.7	11.5	-1.2	-1.7
16 Change *	8.7	18.4	6.6	-0.5	-4.6	-6.0	-5.0	-0.1	-3.5	0.4	0.0	2.8			
17 Equipment and Software ('96\$)	1088.6	1074.7	1059.2	1038.9	1023.1	1009.9	1005.5	1005.9	1015.2	1025.5	1041.4	1058.9	-1.3	-5.1	2.4
18 Change *	-0.5	-5.0	-5.6	-7.4	-6.0	-5.0	-1.7	0.2	3.8	4.1	6.3	6.9			
19 Noncyclical Demand ('96\$)@	8611.0	8714.3	8776.2	8786.5	8781.5	8805.0	8869.8	8926.3	8962.1	9001.2	9045.7	9091.4	3.3	1.4	2.0
20 Change *	2.9	4.9	2.9	0.5	-0.2	1.1	3.0	2.6	1.6	1.8	2.0	2.0			
21 Chg. in Business Inventories	-10.2	-50.6	-29.1	-39.3	-47.1	-36.6	-6.2	18.9	19.0	19.1	19.1	19.2			
22 Gross Domestic Purchases ('96\$)8	12143.0	12134.4	12076.2	11923.8	11836.7	11809.8	11836.1	11900.8	11984.9	12071.7	12180.3	12291.4	-0.3	-1.9	2.4
23 Change *	0.1	-0.3	-1.9	-5.0	-2.9	-0.9	0.9	2.2	2.9	2.9	3.6	3.7			
24 Net Exports ('96\$)	-462.0	-381.3	-352.3	-323.6	-292.6	-273.3	-253.0	-250.4	-254.9	-262.4	-272.5	-287.3			
25 GDP ('96\$)**	11646.0	11727.4	11712.3	11600.2	11544.1	11536.5	11583.1	11650.4	11730.0	11809.3	11907.8	12004.2	1.3	-0.8	2.5
Change *	0.9	2.8	-0.5	-3.8	-1.9	-0.3	1.6	2.3	2.8	2.7	3.4	3.3			

@ Noncyclical Demand = Consumer spending on nondurable goods and services and all forms of government spending (excluding CCC inventories)

& Gross Domestic Purchases = Domestic final demand plus Change *

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

November 26, 2008

Baseline Economic Outlook

Household Sector

	2008				2009				2010				Year-over-Year Growth			
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010	
1 Personal Income (\$ Bil.)	11960.5	12152.2	12156.8	12132.8	12126.3	12163.4	12256.1	12393.0	12543.6	12697.5	12863.5	13036.3	3.7	1.1	4.5	
2 Change *	3.0	6.6	0.2	-0.8	-0.2	1.2	3.1	4.5	4.9	5.0	5.3	5.5				
3 Civilian Employment (Mil.)	146.1	146.1	145.5	145.0	144.4	144.1	144.0	144.3	144.6	144.9	145.4	145.8	-0.3	-1.0	0.7	
4 Change *	-0.6	0.1	-1.6	-1.5	-1.5	-0.9	-0.2	0.6	0.9	1.0	1.1	1.3				
5 Unemployment Rate	4.9	5.3	6.0	6.5	6.8	6.8	6.7	6.4	6.1	5.9	5.7	5.7		6.7	5.9	
6 Personal Consump. Exp. ('96\$)	8316.1	8341.3	8262.1	8155.7	8107.9	8100.5	8113.2	8156.4	8229.8	8296.5	8372.6	8451.2	0.2	-1.8	2.7	
7 Change *	0.9	1.2	-3.7	-5.1	-2.3	-0.4	0.6	2.1	3.6	3.3	3.7	3.8				
8 Autos & Parts	424.7	400.6	370.9	302.1	300.2	307.6	313.2	330.5	366.2	390.7	416.8	439.8	-14.9	-16.5	28.9	
9 Change *	-11.4	-20.8	-26.5	-56.0	-2.6	10.3	7.4	24.1	50.7	29.5	29.5	24.0				
10 Other Durable Goods	812.3	827.7	807.9	790.8	777.2	771.5	769.2	772.5	777.6	781.7	787.0	792.6		1.0	-4.6	1.6
11 Change *	-0.2	7.8	-9.2	-8.2	-6.7	-2.9	-1.2	1.7	2.7	2.1	2.7	2.8				
12 Nondurable Goods	2397.9	2420.7	2377.8	2357.5	2328.1	2316.6	2312.3	2313.8	2318.9	2326.2	2337.4	2350.2	-0.2	-3.0	0.7	
13 Change *	-0.4	3.9	-6.9	-3.4	-4.9	-2.0	-0.7	0.3	0.9	1.3	1.9	2.2				
14 Services	4704.3	4712.1	4712.2	4705.2	4702.3	4704.8	4718.4	4739.6	4767.1	4797.9	4831.4	4868.6		1.3	0.2	2.1
15 Change *	2.4	0.7	0.0	-0.6	-0.2	0.2	1.2	1.8	2.3	2.6	2.8	3.1				
16 Lt. Vehicles	15.2	14.1	12.9	10.5	10.4	10.7	10.8	11.4	12.5	13.3	14.1	14.8	-18.1	-17.9	26.4	
17 Change *	-18.0	-26.1	-30.2	-55.8	-2.6	9.0	5.9	21.6	47.5	26.8	26.9	21.4				
18 New Auto Sales (Mil.)	7.4	7.6	6.6	5.5	5.4	5.5	5.6	5.9	6.5	6.8	7.3	7.6	-10.6	-17.1	25.0	
19 Change *	-14.5	11.8	-43.1	-53.8	-2.6	9.0	5.9	21.6	44.7	24.4	26.9	16.8				
20 New Light Truck Sales (Mil.)	7.8	6.5	6.3	5.0	5.0	5.1	5.2	5.5	6.0	6.4	6.8	7.3	-24.8	-18.7	27.9	
21 Change *	-21.2	-52.4	-12.3	-57.9	-2.6	9.0	5.9	21.6	50.6	29.5	26.9	26.5				
22 Private Housing Starts (Mil.)	1.053	1.025	0.877	0.891	0.825	0.854	0.814	0.883	1.011	1.196	1.445	1.526	-28.3	-12.2	53.4	
23 Change *	-30.0	-10.2	-46.4	6.5	-26.4	15.0	-17.8	39.0	71.7	95.8	113.1	24.4				
24 Single-Family	0.728	0.675	0.603	0.575	0.565	0.560	0.560	0.600	0.750	0.900	1.150	1.200	-37.6	-11.5	75.1	
25 Multi-Family	0.325	0.350	0.274	0.316	0.260	0.294	0.254	0.283	0.261	0.296	0.295	0.326	3.1	-13.7	8.0	
26 Existing Home Sales (Th.)	4953.3	4910.0	5023.3	4826.5	4834.2	4776.6	4761.3	4755.5	4855.4	5031.7	5253.0	5433.9	-4.4	-3.0	7.6	
27 Change *	-3.4	-3.5	9.6	-14.8	0.6	-4.7	-1.3	-0.5	8.7	15.3	18.8	14.5				

A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

November 26, 2008

Baseline Economic Outlook

Corporate and International Sectors

	2008				2009				2010				Year-over-Year Growth		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
1 Fixed Business Invest. ('96\$)	1423.1	1431.8	1426.5	1384.5	1364.6	1346.2	1337.5	1337.8	1344.2	1354.9	1370.8	1390.6	2.4	-4.9	1.4
2 Change *	5.5	5.5	5.5	-11.3	-5.6	-5.3	-2.6	0.1	1.9	3.2	4.8	5.9			
3 Structures	326.4	340.5	346.0	345.6	341.6	336.3	332.0	331.9	329.0	329.3	329.4	331.7	11.5	-1.2	-1.7
4 Change *	8.7	18.4	6.6	-0.5	-4.6	-6.0	-5.0	-0.1	-3.5	0.4	0.0	2.8			
5 Producer Equip. & Software	1088.6	1074.7	1059.2	1038.9	1023.1	1009.9	1005.5	1005.9	1015.2	1025.5	1041.4	1058.9	-1.3	-5.1	2.4
6 Change *	-0.5	-5.0	-5.6	-7.4	-6.0	-5.0	-1.7	0.2	3.8	4.1	6.3	6.9			
7 Chg. in Bus. Invent. ('96\$)	-10.2	-50.6	-29.1	-39.3	-47.1	-36.6	-6.2	18.9	19.0	19.1	19.1	19.2			
8 Chg. in Nonfarm Inventories	-17.9	-55.1	-29.5	-38.6	-46.8	-36.8	-6.6	18.6	18.7	18.8	18.9	19.0			
9 Corporate Profits (B.T.)	1750.9	1750.0	1699.3	1649.1	1634.4	1646.2	1646.9	1660.0	1678.3	1710.1	1744.6	1774.4			
10 Corporate Profits (A.T.)	1348.0	1343.2	1302.4	1265.7	1254.4	1263.5	1264.0	1274.0	1288.1	1312.5	1339.0	1361.9	-8.4	-3.9	4.9
11 Change *	-27.5	-1.4	-11.6	-10.8	-3.5	2.9	0.2	3.2	4.5	7.8	8.3	7.0			
12 Internal Funds (A.T.)	1043.4	1023.8	1015.5	1013.7	1038.6	1050.3	1067.1	1074.2	1089.4	1103.6	1120.4	1132.1	7.9	3.3	5.1
13 Change *	35.2	-7.3	-3.2	-0.7	10.2	4.6	6.6	2.7	5.8	5.3	6.2	4.3			
14 Dividends	832.5	846.4	841.4	848.0	874.2	892.8	913.0	932.6	953.7	975.5	998.6	1021.5	6.8	7.3	9.3
15 Change *	8.1	6.8	-2.3	3.2	12.9	8.8	9.4	8.9	9.3	9.5	9.8	9.5			
16 Output per Hour *	2.3	3.7	1.3	-2.8	-0.5	0.8	2.2	2.1	2.2	2.1	2.7	2.4	2.3	0.3	2.1
17 Hourly Compensation *	4.2	4.2	4.2	-3.6	-1.0	2.4	4.0	4.3	4.2	4.0	4.4	4.5	3.4	1.1	4.1
18 Unit Labor Costs *	1.3	0.1	3.4	-0.7	-0.5	1.6	1.8	2.2	1.9	1.9	1.7	2.1	1.0	0.8	1.9

	2008				2009				2010				Year-over-Year Growth		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
1 Net Exports ('96\$)	-462.0	-381.3	-352.3	-323.6	-292.6	-273.3	-253.0	-250.4	-254.9	-262.4	-272.5	-287.3			
2 Exports ('96\$)	1500.6	1544.7	1557.8	1572.4	1588.3	1604.9	1621.9	1639.2	1656.7	1674.3	1692.2	1710.3	8.3	4.5	4.3
3 Change *	5.1	12.3	3.4	3.8	4.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3			
4 Imports ('96\$)	1962.6	1926.0	1910.2	1896.0	1880.9	1878.2	1874.9	1889.6	1911.6	1936.8	1964.7	1997.5	-2.5	-2.2	3.8
5 Change *	-0.8	-7.3	-3.2	-2.9	-3.2	-0.6	-0.7	3.2	4.7	5.4	5.9	6.9			
6 Trade-Weighted Index	72.0	70.9	73.5	80.9	80.9	80.8	80.7	80.7	80.6	80.5	80.5	80.4	-4.6	8.7	-0.3

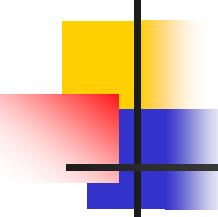
A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

November 26, 2008



Outlook for Interest Rates

Market-Based Forecasts: Futures Market over the Next Year

Futures market sees a cut in the federal funds rate at the December meeting

General rise in the target for federal funds beginning in the second half of 2009

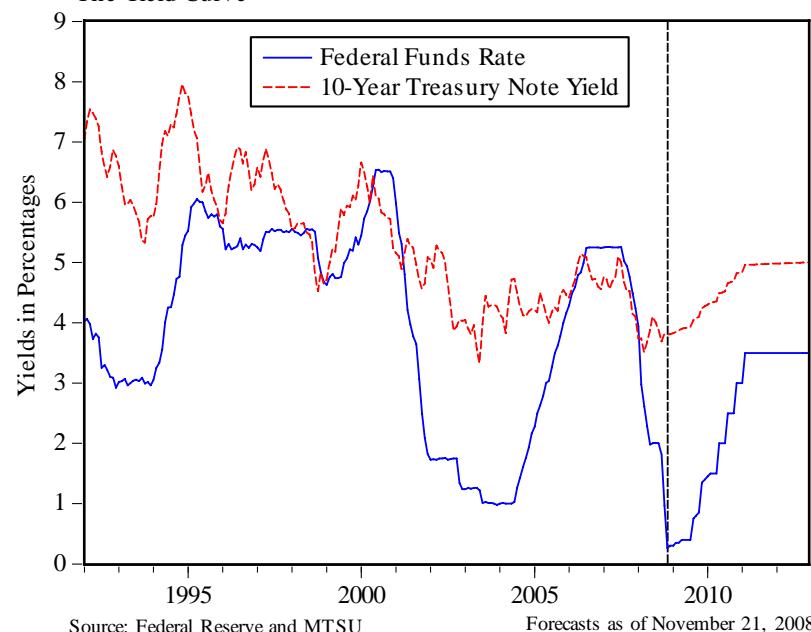
Futures market is better used as a gauge of market sentiment than as a predictor of things to come

Contract Date	Implicit Rate
Nov-08	0.455
Dec-08	0.470
Jan-09	0.470
Feb-09	0.445
Mar-09	0.490
Apr-09	0.545
May-09	0.600
Jun-09	0.625
Jul-09	0.710
Aug-09	0.805
Sep-09	0.890
Oct-09	0.990
Nov-09	1.120
Dec-09	1.200
Jan-10	1.250
Mar-08	1.465
Jul-08	1.805
As of 11/24/08	
Source: cbot.com	

Interest Rate Outlook – Graphic Portrayal

MTSU Baseline Interest Rate Forecast

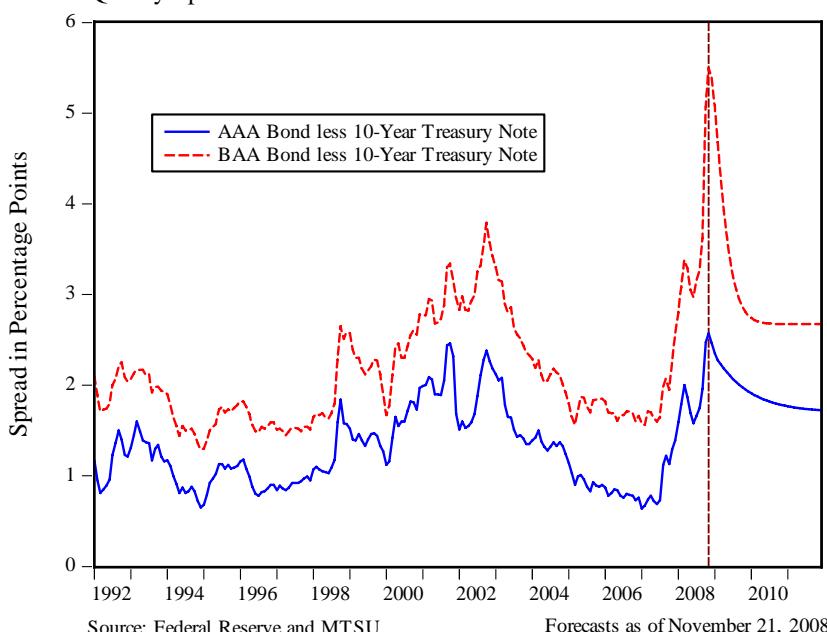
The Yield Curve



Source: Federal Reserve and MTSU

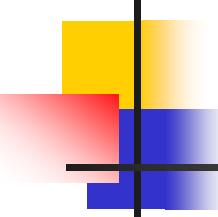
Forecasts as of November 21, 2008

Quality Spread



Source: Federal Reserve and MTSU

Forecasts as of November 21, 2008



Interest Rate Forecasts

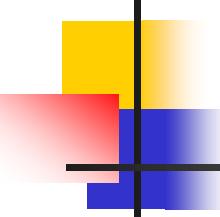
Money Market Rates

	2008				2009				2010				Annual Averages		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
1 Federal Funds	3.18	2.09	1.94	0.51	0.33	0.40	0.65	1.20	1.48	1.83	2.33	2.83	1.93	0.65	2.12
Commercial Paper															
2 1-Month	2.96	2.08	2.07	1.09	0.93	0.84	1.17	1.77	2.05	2.27	2.81	3.30	2.05	1.17	2.61
3 3-Month	2.83	2.07	2.11	1.51	1.09	1.09	1.24	1.92	2.17	2.44	2.90	3.39	2.13	1.33	2.73
4 6-Month	2.77	2.07	2.13	1.70	1.14	1.10	1.21	2.01	2.19	2.47	2.88	3.43	2.17	1.37	2.74
Finance Paper															
5 1-Month	3.11	2.39	2.47	1.80	1.10	1.00	1.35	2.06	2.10	2.32	2.86	3.40	2.44	1.38	2.67
6 3-Month	3.11	2.52	2.61	1.90	1.10	1.09	1.24	1.93	2.18	2.45	2.91	3.41	2.54	1.34	2.74
7 6-Month	3.14	2.68	2.80	2.03	1.12	1.34	1.35	2.15	2.15	2.54	2.88	3.45	2.66	1.49	2.75
Treasury Bills															
8 1-Month	2.09	1.65	1.52	0.45	0.35	0.43	0.68	1.28	1.58	1.89	2.40	2.91	1.43	0.69	2.20
9 3-Month	2.15	1.88	1.86	1.02	0.95	1.03	1.25	1.78	2.05	2.33	2.79	3.24	1.73	1.25	2.60
Negotiable CDs															
10 1-Month	3.26	2.61	2.80	2.57	1.26	1.09	1.51	2.55	2.15	2.34	2.97	3.71	2.81	1.60	2.79
11 3-Month	3.23	2.76	3.06	3.02	1.73	1.53	1.68	2.64	2.54	2.61	3.08	3.51	3.02	1.89	2.93
12 6-Month	3.13	2.93	3.35	3.27	2.14	2.01	2.56	2.80	2.86	3.17	3.56	3.90	3.17	2.38	3.37
Eurodollar Deposit															
13 1-Month	3.32	2.75	3.09	3.11	1.41	1.21	1.67	2.85	2.24	2.41	3.05	3.88	3.07	1.79	2.89
14 3-Month	3.31	2.94	3.32	3.78	2.05	1.69	1.82	2.95	2.80	2.79	3.18	3.65	3.34	2.13	3.11
15 6-Month	3.22	3.09	3.61	4.09	2.07	1.85	3.07	2.96	2.61	3.31	3.79	3.78	3.50	2.49	3.37

A = Actual; E = Forecast

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp

November 21, 2008



Interest Rate Forecasts

Capital Market Rates

	2008				2009				2010				Annual Averages		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
U.S. Treasury Notes and Bonds															
1 1-Yr Note	2.10	2.07	2.12	1.31	1.33	1.33	1.55	2.07	2.34	2.62	3.06	3.51	1.90	1.57	2.88
2 2-Yr Note	2.02	2.42	2.36	1.41	1.37	1.48	1.72	2.25	2.54	2.84	3.29	3.75	2.05	1.70	3.10
3 5-Yr Note	2.75	3.16	3.11	2.57	2.55	2.65	2.83	3.17	3.38	3.59	3.90	4.20	2.90	2.80	3.77
4 10-Yr Note	3.66	3.89	3.86	3.81	3.85	3.91	4.02	4.20	4.33	4.45	4.62	4.78	3.80	4.00	4.54
5 30-Yr Note	4.40	4.59	4.49	4.52	4.71	4.71	4.83	5.00	5.06	5.18	5.31	5.41	4.50	4.81	5.24
Other Bonds															
6 AAA Bonds	5.46	5.60	5.65	6.31	6.13	6.05	6.05	6.16	6.22	6.29	6.43	6.56	5.75	6.10	6.37
7 BAA Bonds	6.75	6.99	7.21	9.13	8.53	7.56	7.09	7.02	7.05	7.14	7.29	7.45	7.52	7.55	7.23
8 State and Local	4.61	4.66	4.74	5.27	5.07	4.91	4.83	4.88	4.92	4.98	5.09	5.20	4.82	4.92	5.05
Mortgage Rates - Primary Mkt															
9 30-Yr (FHLMC - PMMS)	5.67	5.89	6.11	6.02	5.88	5.90	5.98	6.13	6.22	6.32	6.46	6.61	5.92	5.97	6.40
10 15-Yr (FHLMC - PMMS)	4.97	5.36	5.57	5.54	4.89	4.55	4.69	5.00	5.08	5.19	5.46	5.73	5.36	4.78	5.37
11 ARM (FHLMC - PMMS)	5.13	5.19	5.21	5.31	5.36	5.04	4.90	5.12	5.14	5.22	5.52	5.86	5.21	5.10	5.44
Mortgage Rates - Secondary Mkt															
12 30-Yr (FLHMC Req Net Yield)	5.88	6.09	6.32	6.17	6.10	6.08	6.11	6.25	6.32	6.41	6.55	6.69	6.11	6.13	6.49
13 15-Yr (FLHMC Req Net Yield)	5.38	5.66	5.88	5.85	5.80	5.78	5.85	6.09	6.20	6.32	6.54	6.76	5.69	5.88	6.45

A = Actual; E = Forecast

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp

November 21, 2008

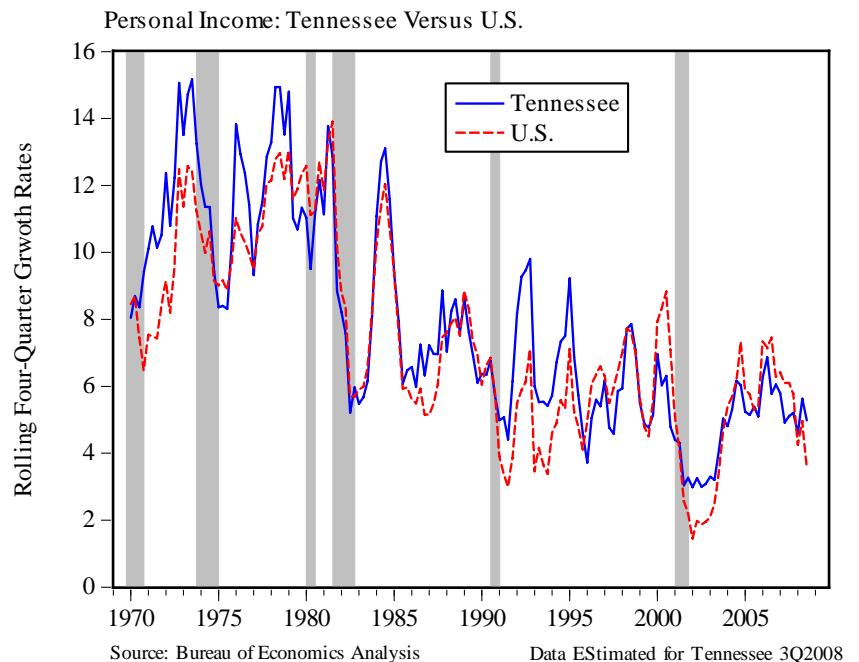
The Tennessee Cycle in Perspective

Personal Income – Tennessee versus U.S.

Quarterly growth in state and nation follows roughly the same cyclical pattern

- Over time, each 1% growth in U.S. personal income is met with 1% growth in Tennessee
- But there are sizeable short-run deviations

Then the two series tracked each other closely for a few years



The Tennessee Cycle in Perspective

Labor Markets – Tennessee versus U.S.

Tennessee's growth pattern moves in a roughly similar cyclical pattern

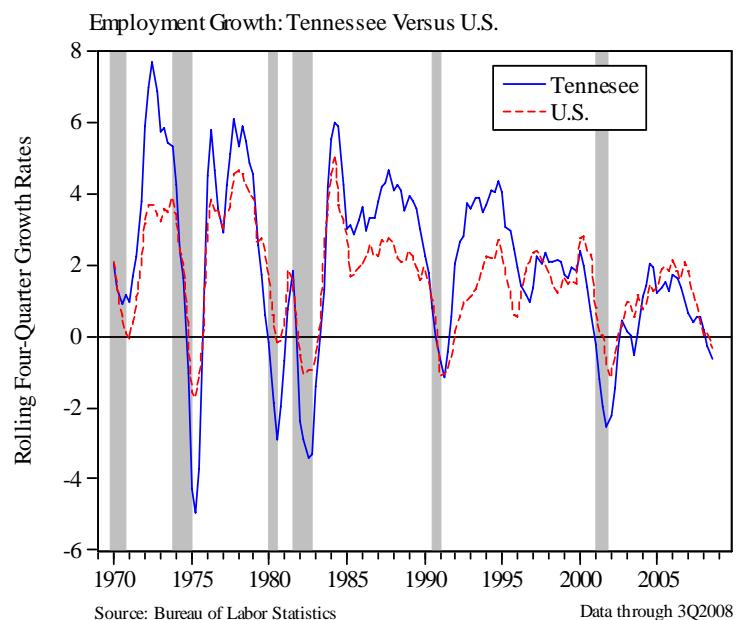
But differences are evident

Pattern has tighter co-movement as decline gathers momentum

In the early part of the common sample period, Tennessee typically exhibited a wider cyclical amplitude than the country as a whole

But Tennessee and U.S. moved into closer cyclical alignment in the past 10 years

This cycle, Tennessee and U.S. move in tight tandem



The Tennessee Cycle in Perspective

Housing Activity – Tennessee versus U.S.

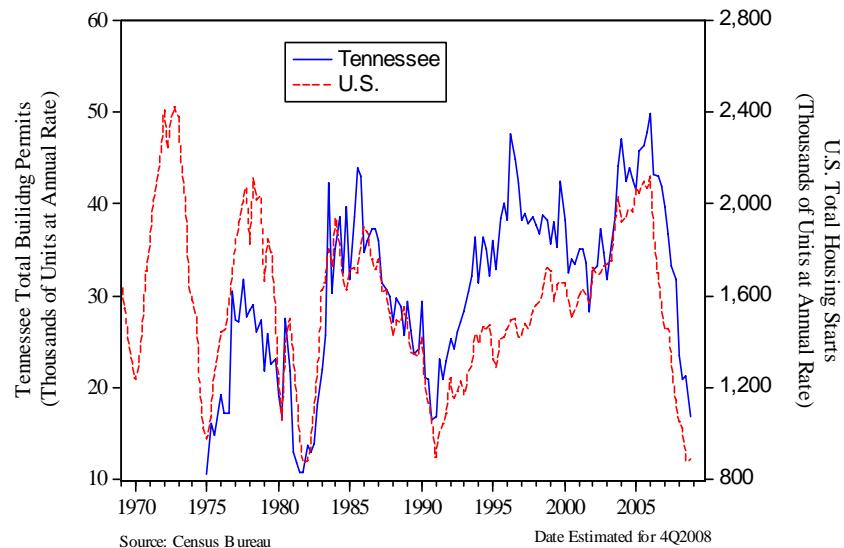
Housing in Tennessee generally moves with the U.S. housing cycle

- But there was break in the tightness of the relationship 2000-2004
- Tightness resumes in the late stage of the housing upswing and so far in the housing slump

In hindsight the 2005-2006 national housing boom may well have been a bubble

- As a result, both the volume of permits and valuation are now at risk

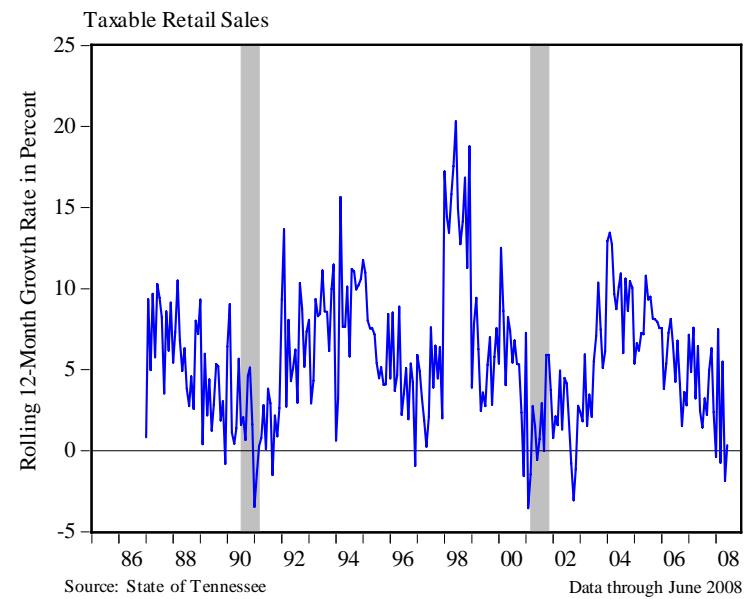
For Tennessee, boom was relatively stronger and longer



The Tennessee Cycle in Perspective

Consumer Spending

Recent deceleration in sales growth is akin to its behavior going into to the 1990 and 2001 recession



Baseline Economic Outlook

Economics Outlook for Tennessee

	2008				2009				2010				Year-over-Year Growth		
	I(A) 2008	II(A) 2008	III(A) 2008	IV(E) 2008	I(A) 2009	II(E) 2009	III(E) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	2008	2009	2010
National Trends															
1 Civilian Employment (Mil.)	146.1	146.1	145.5	145.0	144.4	144.1	144.0	144.3	144.6	144.9	145.4	145.8	-0.3	-1.0	0.7
2 Change *	-0.6	0.1	-1.6	-1.5	-1.5	-0.9	-0.2	0.6	0.9	1.0	1.1	1.3			
3 Personal Income	11960.5	12152.2	12156.8	12133.1	12126.8	12164.2	12257.1	12394.2	12545.1	12699.2	12865.5	13038.6	3.8	1.1	4.5
4 Change *	3.0	6.6	0.2	-0.8	-0.2	1.2	3.1	4.6	5.0	5.0	5.3	5.5			
5 Income Per Employee (T)	81.882	83.183	83.542	83.688	83.961	84.409	85.089	85.916	86.767	87.618	88.513	89.417	4.0	2.1	3.8
6 Change *	3.6	6.5	1.7	0.7	1.3	2.2	3.3	3.9	4.0	4.0	4.1	4.1			
7 Housing Starts (Mil. of Units)	1.053	1.025	0.877	0.891	0.825	0.854	0.814	0.883	1.011	1.196	1.445	1.526	-28.3	-12.2	53.4
8 Change *	-30.0	-10.2	-46.4	6.5	-26.4	15.0	-17.8	39.0	71.7	95.8	113.1	24.4			
Tennessee															
9 Nonagricultural Employment (T)	2796.9	2784.7	2785.3	2773.6	2765.6	2759.8	2758.3	2760.9	2765.7	2771.3	2777.6	2784.5	-0.5	-0.9	0.5
10 Change *	-0.8	-1.7	0.1	-1.7	-1.2	-0.8	-0.2	0.4	0.7	0.8	0.9	1.0			
11 Personal Income	211.3	215.6	216.4	216.0	216.1	216.8	218.3	220.4	222.9	225.4	228.0	230.8	4.6	1.4	4.1
12 Change *	3.3	8.4	1.6	-0.8	0.2	1.3	2.9	4.0	4.5	4.6	4.8	4.8			
13 Dividends & Interest	26.7	26.8	26.8	26.8	26.9	27.0	27.2	27.4	27.6	27.9	28.1	28.4	2.4	1.3	3.1
14 Change *	-0.2	1.7	-0.8	-0.2	2.0	1.9	2.7	3.0	3.3	3.4	3.5	3.5			
15 Income Per Employee (T)	75.546	77.423	77.705	77.868	78.125	78.541	79.152	79.847	80.593	81.333	82.099	82.869	5.0	2.3	3.6
16 Change *	4.2	10.3	1.5	0.8	1.3	2.1	3.1	3.6	3.8	3.7	3.8	3.8			
17 Retail Sales	92.0	91.7	91.9	90.1	89.1	88.2	87.6	87.5	87.6	88.0	88.7	89.6	1.2	-3.7	0.4
18 Change *	4.1	-1.3	0.7	-7.6	-4.5	-4.0	-2.5	-0.5	0.3	2.0	3.4	4.1			
19 Single-Family Building Permits (T)	17.964	17.681	17.929	12.847	12.407	12.395	12.326	13.516	15.809	20.347	25.353	27.442	-40.9	-23.8	75.6
20 Change *	-57.9	-6.1	5.7	-73.6	-13.0	-0.4	-2.2	44.6	87.2	174.4	141.0	37.3			
21 Total Building Permits (T)	23.5	20.9	21.2	16.2	15.9	15.9	15.9	17.0	20.2	25.2	31.4	33.9	-42.1	-21.0	71.1
22 Change *	-70.0	-37.2	4.9	-65.7	-7.5	0.1	-1.3	32.9	97.8	140.7	143.9	35.2			

Note: Except where noted, all data in billions of dollars.

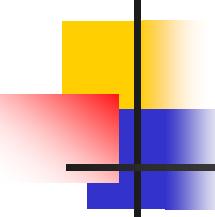
Historic sources: BEA, BLS, State of Tennessee

T=Thousands of units, persons, or dollars

November 29, 2008

A = Actual; E = Forecast

* Quarter-to-quarter percent changes expressed at compound annual rates.



Baseline Economic Outlook

Economic Assumptions—Fiscal Year Basis

	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11
1 Personal Income (Bil \$)	128.9	137.0	144.9	152.0	156.8	161.7	169.5	179.1	189.7	200.4	210.7	216.3	221.8	232.1
2 Chg@	6.0	6.3	5.7	4.9	3.1	3.1	4.8	5.6	5.9	5.6	5.1	2.7	2.5	4.7
3 Nonagricultural Employment (Mil)	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8
4 Chg@	2.1	1.9	2.0	0.2	-2.1	0.1	0.5	1.6	1.6	0.9	0.2	-0.9	-0.3	0.9
5 Income Per Employee (Th \$)	49.4	51.5	53.4	55.9	58.9	60.7	63.3	65.8	68.6	71.8	75.3	78.1	80.2	83.3
6 Chg@	3.8	4.3	3.6	4.8	5.3	3.1	4.3	3.9	4.3	4.7	4.9	3.6	2.8	3.8
7 Retail Sales (Bil \$)	53.5	58.8	62.6	64.1	65.9	67.0	73.1	79.2	85.0	88.9	91.2	89.8	87.7	90.1
8 Chg@	10.8	9.9	6.5	2.4	2.9	1.7	9.1	8.3	7.4	4.6	2.5	-1.5	-2.4	2.8
9 Building Permits (Th of Units)	29.4	31.2	29.7	26.3	28.0	30.2	36.0	37.2	40.1	34.0	21.4	13.9	15.5	27.4
10 Chg@	0.7	6.0	-4.8	-11.4	6.4	8.0	19.1	3.3	7.9	-15.1	-37.2	-35.0	11.6	76.8

* Millions of dollars

@ Annual Percent Change

Annual economic data in lines 1, 3, 5, 7, and 9 are calculated in terms of fiscal years ending in IIQ of the calendar year of the noted fiscal year

November 30, 2008

Baseline Economic Outlook

Baseline Revenue Projections

	Forecasts													
	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	
11 Total Tax Revenue*	6,737.7	6,979.4	7,526.8	7,656.4	7,469.0	8,449.7	9,094.0	9,638.6	10,290.8	11,052.7	11,194.5	10,668.7	10,770.0	11,238.1
12 Chg@	5.7	3.6	7.8	1.7	-2.4	13.1	7.6	6.0	6.8	7.4	1.3	-4.7	0.9	4.3
13 Sales and Use Tax*	4,099.9	4,346.2	4,600.7	4,643.3	4,645.7	5,459.4	5,810.8	6,091.5	6,515.6	6,815.4	6,856.6	6,747.2	6,829.1	7,159.2
14 Chg@	5.0	6.0	5.9	0.9	0.1	17.5	6.4	4.8	7.0	4.6	0.6	-1.6	1.2	4.8
15 Income Tax*	161.3	160.4	179.9	199.4	141.7	102.9	140.0	155.9	194.4	247.6	292.1	261.8	262.9	275.8
16 Chg@	25.8	-0.6	12.2	10.8	-28.9	-27.4	36.0	11.4	24.7	27.4	18.0	-10.4	0.4	4.9
17 Gross Receipts Tax*	188.8	197.5	213.1	248.6	224.3	216.5	219.1	235.9	241.2	277.6	290.6	301.9	309.8	317.3
18 Chg@	0.3	4.6	7.9	16.6	-9.8	-3.5	1.2	7.6	2.2	15.1	4.7	3.9	2.6	2.4
19 Excise plus Franchise Taxes*	906.2	891.2	1,083.0	1,102.8	966.3	1,071.7	1,197.8	1,372.0	1,491.6	1,766.1	1,650.4	1,344.3	1,327.9	1,361.3
20 Chg@	1.4	-1.7	21.5	1.8	-12.4	10.9	11.8	14.5	8.7	18.4	-6.5	-18.5	-1.2	2.5
21 Gasoline Tax*	563.2	567.4	576.1	569.4	576.9	600.1	599.3	608.1	605.6	612.3	618.8	572.3	580.8	589.4
22 Chg@	3.7	0.8	1.5	-1.2	1.3	4.0	-0.1	1.5	-0.4	1.1	1.1	-7.5	1.5	1.5
23 Vehicle Registration*	195.7	201.2	218.6	211.4	219.6	225.0	238.5	244.2	249.5	257.4	253.7	255.7	256.7	270.1
24 Chg@	6.5	2.8	8.7	-3.3	3.9	2.5	6.0	2.4	2.2	3.1	-1.4	0.8	0.4	5.2
25 Fuel Tax*	133.2	142.5	152.8	173.4	151.2	155.4	167.7	173.7	180.7	185.9	182.4	158.3	161.4	165.2
26 Chg@	5.0	7.0	7.2	13.5	-12.8	2.8	7.9	3.5	4.0	2.9	-1.9	-13.2	2.0	2.3
27 Privilege Tax*	124.4	142.6	153.7	160.8	177.4	216.5	246.1	264.9	304.9	313.8	314.2	288.4	298.7	332.4
28 Chg@	14.7	14.7	7.8	4.6	10.3	22.1	13.6	7.7	15.1	2.9	0.1	-8.2	3.6	11.3
29 All Other Taxes*	365.1	330.4	348.9	347.2	365.8	401.9	474.6	492.4	507.3	576.7	735.7	738.7	742.7	767.6
30 Chg@	23.0	-9.5	5.6	-0.5	5.4	9.9	18.1	3.7	3.0	13.7	27.6	0.4	0.5	3.4

* Millions of dollars

@ Annual Percent Change

November 30, 2008

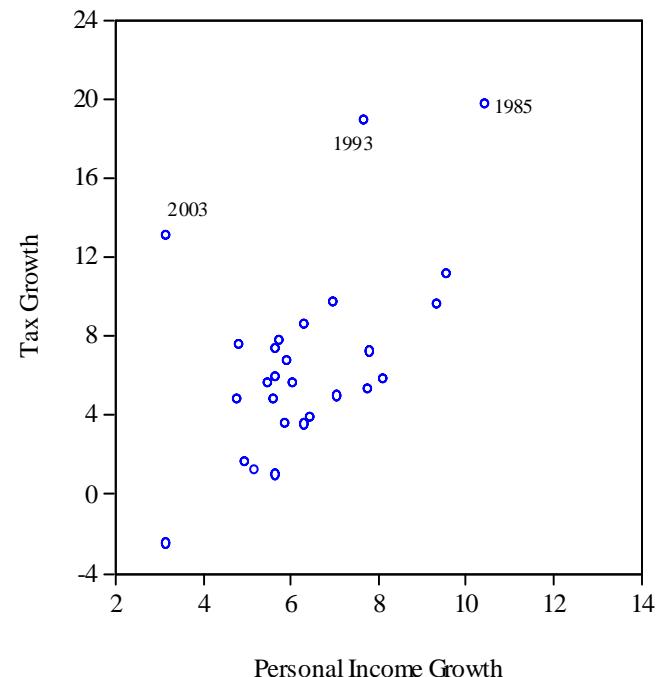
A Consistency Check

Top-down forecasting model projects growth in tax revenue based on personal income growth, controlling for tax rate changes in 1985, 1993, and 2003

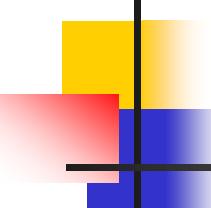
Based on personal income projections, the consistency check is below

Growth is stronger for FY 2008-09 largely because the consistency model cannot capture the shortfall in the running rate in taxes.

Growth for FY2009-2010 is “in line” with the baseline projection



Tax Revenue (,000)	\$11,052,680	\$11,194,513	\$11,166,920	\$11,288,790	\$11,677,380
Tax Revenue Growth	7.4	1.3	-0.2	1.1	3.4



Contingency Views

Balancing the Risks

Probabilities

- Stronger growth 12.5%
- Baseline 50%
- Weaker growth 37.5%

Tilting the balance to weak-growth scenario: Asymmetric cost of forecast errors

- Lower than projected tax revenue is a bigger problem for the state than higher than projected tax revenue

Risk Scenario

Personal income growth projections in is cut from 2.7% to zero in FY 2008-09 and from 2.5% in 2009-10 to 1.25%

Projected employment growth is from -0.9% in FY 2008-09 to -2.0% in FY2009-10

Difference between the consistency and the risk models is used to adjust the baseline revenue outlook as noted below

	FY2002-07	FY2007-08	FY2008-09	FY200-10
Baseline-Revenue Growth	7.4	1.3	-4.7	0.9
Baseline-Revenue Levels	\$ 11,052,680	\$ 11,194,513	\$ 10,668,660	\$ 10,769,960
Risk Scenario-Growth	7.4	1.3	-6.6	0.1
Risk Scenario-Levels	\$ 11,052,680	\$ 11,194,513	\$ 10,459,936	\$ 10,475,228